CITY UNION BANK LTD.,

Administrative Office, Kumbakonam

BASEL- III
PILLAR 3 DISCLOSURES AS ON 30.06.2021

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 and the Bank was compliant with regard to maintenance of minimum capital for credit and market risks.

Subsequently, the BCBS released the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (popularly known as Basel II document) on 26.06.2004. Reserve Bank of India issued final guidelines on 27.04.2007 for implementation of the New Capital Adequacy (Basel II) Framework, which includes capital for Operational Risk.

In line with the RBI guidelines, the Bank 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 01.04.2013 in India in phases and it was decided originally to implement 'Capital Conservation Buffer Framework' fully from 31.03.2018. RBI issued detailed Guidelines on Composition of Capital Disclosure Requirements on 28.05.2013.

RBI had issued circulars regarding the extension of transitional period for full implementation of Basel III Capital Regulations based on the economic situation and also due to the continuing stress on account of COVID-19 crisis. The details of extension of 'Capital Conservation Buffer Framework' are furnished below:

RBI circular dated	Deferred from	Implementation from
27.03.2014	31.03.2018	31.03.2019
10.01.2019	31.03.2019	31.03.2020
27.03.2020	31.03.2020	30.09.2020
29.09.2020	30.09.2020	01.04.2021
05.02.2021	01.04.2021	01.10.2021

Accordingly, 'Capital Conservation Buffer Framework' on 'Basel III Capital Regulations', shall continue to apply till the CCB attains the level of 2.5% on 01.10.2021.

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, which includes the introduction of capital buffers.

Under the Basel II framework, the total regulatory capital comprises 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 of absorbing losses, 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.

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).

As per the extant RBI guidelines mentioned above, the transitional period for full implementation of Basel III Capital Regulations in India has been extended as under:

Capital Ratios (% to RWAs)	31.03.2016	31.03.2017	31.03.2018/ 31.03.2019/ 31.03.2020/ 30.06.2021	01.10.2021*
Minimum Common Equity Tier I (CET-1)	5.500	5.500	5.500	5.500
Capital Conservation Buffer (CCB)	0.625	1.250	1.875	2.500
Minimum CET1 + CCB	6.125	6.750	7.375	8.000
Minimum Tier 1 Capital (excluding CCB)	7.000	7.000	7.000	7.000
Tier-2 Maximum allowed	2.000	2.000	2.000	2.000
Minimum Total Capital	9.000	9.000	9.000	9.000
Minimum Total Capital + CCB	9.625	10.250	10.875	11.500

* *as per the RBI guidelines vide their circular dt. 05.02.2021*

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

The Bank is following Standardised Approach, Standardised 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 (25467.41 * 9.00%)		2292.07
	• Securitisation exposures		Nil
b	**Capital requirements for Market Risk:**		
	Standardised Duration Approach		28.33
	• Interest Rate Risk	16.17	
	• Equity risk	9.36	
	• Foreign exchange risk	2.80	
c	**Capital requirements for Operational Risk:**		
	Basic Indicator Approach (4139.25 * 8.00%)		331.14
Minimum capital required (a + b + c)			**2651.54**

d	Capital Conservation Buffer (CCB) at 1.875% (29960.81 * 1.875%)		561.77
	Minimum Total Capital + CCB		3213.31
	Total Capital Funds available		5865.38
	Total Risk Weighted Assets		29960.81
e	Common Equity Tier I CRAR % (excluding CCB)		16.635%
	Capital Conservation Buffer		1.875%
	Tier I CRAR		18.51%
	Tier II CRAR		1.07%
	Total CRAR %		**19.58%**

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 following policies for mitigating the risk in various areas and monitoring the same:

- ✓ Integrated Risk Management Policy
- ✓ Loan Policy
- ✓ Credit Risk Management Policy

- ✓ Operational 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
- ✓ Credit Risk Mitigation & Collateral Management Policy
- ✓ Risk Rating Policy
- ✓ Pricing policy
- ✓ New Product Assessment Policy
- ✓ Risk & Control Self-Assessment standards (RCSA)
- ✓ Policy on Unhedged Foreign Currency exposures of corporates including SMEs
- ✓ Market Risk Management Policy
- ✓ Business Continuity Plan Policy

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

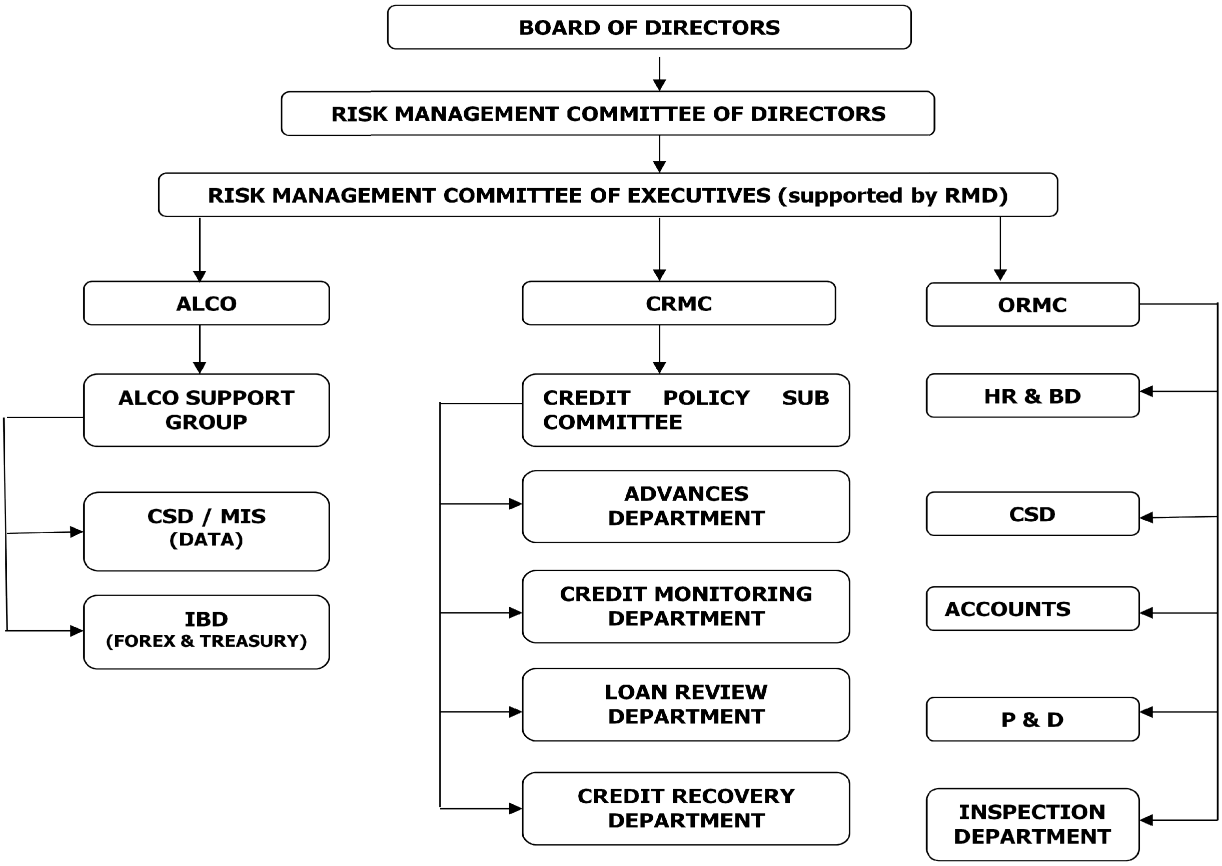

TABLE DF – 3
CREDIT RISK: GENERAL DISCLOSURES

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, benchmarks, 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 scorings assigned, 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 & responsibilities and the processes whereby the Credit Risk 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 30.06.2021	Domestic	Overseas	Total
Fund based	39202.69	--	39202.69
Non-fund based	2333.85	--	2333.85
Investment (Non SLR)	178.38	--	178.38
Total	**41714.92**	**--**	**41714.92**

Industry type distribution of exposures – 30.06.2021 (Rs. in crore)

INDUSTRY /ACTIVITY	FUNDED EXPOSURE	NON-FUNDED EXPOSURE	INVESTMENT EXPOSURE (NON SLR)	TOTAL EXPOSURE
Mining and Quarrying	109.37	5.36	0.00	114.73
Iron and Steel	1035.92	175.31	0.33	1211.56
Other Metal and Metal Products	723.87	86.13	0.00	810.00
Engineering of which Electronics	116.30	34.45	0.00	150.75
Others (incl Electrical & Home Appliances)	499.23	91.71	0.00	590.94
Cotton Textiles	1785.68	76.48	0.00	1862.16
Other textiles	2331.45	69.02	0.00	2400.47
Food Processing	340.19	56.63	0.00	396.82
Beverages and Tobacco	43.52	7.03	0.00	50.55
Leather and Leather products	30.85	0.00	0.00	30.85
Wood and Wood Products	90.32	29.05	0.00	119.37
Paper and Paper Products	611.95	24.53	0.00	636.48
Petroleum, Coal Products and Nuclear Fuels	102.87	0.84	0.00	103.71
Drugs and Pharmaceuticals	100.59	53.89	0.00	154.48
Other Chemicals and Chemical Products	320.27	204.07	0.00	524.34
Rubber, Plastic and their Products	439.33	36.24	0.00	475.57
Glass & Glassware	18.96	0.00	0.00	18.96
Cement and Cement Products	16.84	4.24	0.00	21.08
Vehicles, Vehicle Parts and Transport Equipments & auto parts	222.07	31.52	0.00	253.59
Gems and Jewellery	140.27	16.13	0.00	156.40
Construction	389.86	26.21	0.00	416.07
Infrastructure	344.61	41.59	0.02	386.22
Other Industries	197.88	15.09	0.00	212.97
All Industries Total	**10012.20**	**1085.52**	**0.35**	**11098.07**
Residuary (other exposures)	29190.49	1248.33	178.03	30616.85
Total Gross Exposure	**39202.69**	**2333.85**	**178.38**	**41714.92**

Note: The exposure to Other Textiles and Cotton accounted for 5.75% and 4.46% of Total Gross Exposure respectively as of 30.06.2021. The coverage of advances to the above industry occupies the top position among the industrial sectors.

Residual contractual maturity breakdown of assets 30.06.2021

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

(Rs. in crore)

PERIOD	Cash, RBI Balance & Balance with all Banks	Advances (Net)	Investments (Net)	Fixed & Other Assets	Total
1 day	1004.49	391.26	3283.30	72.77	4751.82
2 to 7 days	44.26	2184.68	228.28	57.85	2515.07
8 to 14 days	55.98	1247.37	287.92	66.73	1658.00
15 to 30 days	430.49	567.30	276.88	15.98	1290.65
31 days to 60 days	94.64	871.23	486.72	10.48	1463.07
61 days to 90 days	315.78	1401.53	451.51	10.48	2179.30
Over 3 months & upto 6 months	1511.90	2723.53	1276.88	201.95	5714.26
Over 6 months & upto 1 Year	1260.52	4787.51	1704.33	70.50	7822.86
Over 1 year & upto 3 years	630.70	15043.20	1869.37	443.51	17986.78
Over 3 years & upto 5 years	16.92	3770.75	87.00	99.72	3974.39
Over 5 years	2.30	2568.98	90.50	1194.53	3856.31
Total	**5367.98**	**35557.34**	**10042.69**	**2244.50**	**53212.51**

Gross NPA (Rs. in crore)	
Sub-standard	1368.41
Doubtful 1	357.72
Doubtful 2	238.14
Doubtful 3	61.42
Loss	9.66
Gross NPA Total	**2035.35**

Geographical-wise NPA (Rs. in crore)	
Gross NPA – Domestic	2035.35
Gross NPA – overseas	Nil
Gross NPA – Total	**2035.35**

Particulars	(%)
Gross NPA to Gross Advances	5.59%
Net NPA to Net Advances	3.49%

(Rs. in crore)

Major Industry	O/s bal	Gross NPA	Provision held
Other Textiles	1995.23	55.14	17.34
Cotton	1558.96	47.61	19.78

The movement of NPA is as under: (Rs. in crore)

S.no	Position	NPA
1	Opening balance at the beginning of the quarter (01.04.2021)	1893.19
2	Additions made during the quarter	482.17
3	Reductions during the quarter	340.01
4	Closing balance at the end of the quarter (30.06.2021) (1 + 2 - 3)	2035.35

The movements of provisions for NPAs are as under: (Rs. in crore)

S.no	Position	Total Provision
1	Opening balance at the beginning of the quarter (01.04.2021)	818.00
2	Provisions made during the quarter	233.00
3	Write-off/Write-back of excess provisions during the quarter	257.82
4	Closing Balance at the end of the quarter (30.06.2021) (1 + 2 - 3)	793.18

(Rs. in crore)

Recovery made during the quarter 30.06.2021, which is directly taken to Income Account	18.62

Non-performing investment	2.15
Provision held for non-performing investment	2.15

The movement of provisions for depreciation on investments (Rs. in crore)

S.no	Position	Total Provision
1	Opening balance at the beginning of the quarter (01.04.2021)	85.14
2	Provisions made during the quarter	--
3	Write-off during the quarter	--
4	Write-back of excess provisions during the quarter	--
5	Closing Balance at the end of the quarter (30.06.2021) (1 + 2 – 3 – 4)	85.14

TABLE: DF - 4

CREDIT RISK
DISCLOSURES FOR PORTFOLIO SUBJECT TO THE STANDARDISED APPROACH

Qualitative Disclosures

The Bank is accepting the ratings of the External Credit Rating Agencies approved by Reserve Bank of India, namely a) CRISIL, b) ICRA, c) CARE, d) India ratings & research Pvt Ltd, e) Brickwork, f) Acuite ratings & research Ltd and g) Infomerics Valuation and Rating Pvt. Ltd. to facilitate the corporate borrowers who enjoy credit facilities above Rs.5.00 crore to get themselves rated. 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 borrowers. 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 %	327.99	30025.30	30353.29
At 100 %	86.96	12806.83	12893.79
More than 100 %	1325.73	1140.36	2466.09
Total outstanding after mitigation	1740.68	43972.49	45713.17
Deducted (as per Risk Mitigation)	148.98	9143.06	9292.04

Table DF-16
Equities – Disclosure for Banking Book Positions

There are no equity investments as on 30.06.2021 under Banking Book (HTM).

Table DF-17
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. Previously, the indicative benchmark Leverage Ratio prescribed was 4.50% (minimum), which has been reduced to 3.50% (minimum) as per the RBI circular on "Basel III Capital Regulations - Implementation of Leverage Ratio", vide DBR.BP.BC.No.49/21.06.201/2018-19 dated 28.06.2019.

Leverage Ratio = Capital Measure (Tier I Capital) / Exposure Measure

Summary comparison of Accounting Assets vs. Leverage Ratio Exposure measure - 30.06.2021		
S.no.	**Item**	**Amount (Rs. in millions)**
1	Total consolidated assets as per published financial statements	532125.11
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0.00
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	2452.01
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)	20007.80
7	Other adjustments (intangible)	(2297.37)
	Leverage Ratio exposure	**552287.55**

Table DF – 18

Leverage Ratio common disclosure template – 30.06.2021

(Rs. in millions)

S.no.	Item	Amount
	On – balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	532125.11
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(2297.37)
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	**529827.74**
	Derivative Exposures	
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	2452.01
5	Add-on amounts for PFE associated with all 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	----

S.no.	Item	Amount
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	----
11	**Total derivative exposures (sum of lines 4 to 10)**	**2452.01**
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	57169.19
18	(Adjustments for conversion to credit equivalent amounts)	(37161.39)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**20007.80**
Capital and total exposures		
20	Tier 1 capital	55470.38
21	Total exposures (sum of lines 3, 11, 16 and 19)	**552287.55**
Leverage ratio		
22	**Basel III leverage ratio (20 / 21)**	**10.04%**