PILLAR 3 DISCLOSURE REQUIREMENTS AS ON 31.12.2014

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. Accordingly, the transitional period for full implementation of Basel III Capital Regulations in India is extended upto March 31, 2019, instead of as on March 31, 2018. The Basel III Capital Regulations have been consolidated in Master Circular – Basel III Capital Regulations vide circular No. DBOD.No.BP.BC.6/21.06.201/2014-15 dated July 1, 2014.

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 (other than capital conservation buffer and countercyclical capital buffer etc.). Besides these minimum capital requirements, Basel III also provides for creation of capital conservation buffer (CCB). The CCB requirements are to be implemented from March 31, 2016 in phases and are to be fully implemented by March 31, 2019 to the extent of 2.5% of Risk weighted Assets.

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 with the phase in requirements under CCB from 2016.

- Tier 1 Capital comprises of:-
  - Common Equity Tier 1 capital (with a minimum of 5.5%)
  - Additional Tier 1 capital
  - Total Tier 1 capital of minimum 7%
- Tier 2 Capital.
  - Total Tier 1 + Tier 2 should be more than 9%
- Capital Conservation Buffer (CCB). (with a minimum of 2.5%)
  - Total capital including CCB should be 11.5%

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 periodically undertakes stress testing 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 annual basis to assess the sufficiency of its capital funds to cover the risks specified under Pillar- II of Basel guidelines. The adequacy of Bank's capital funds to meet the future business growth is also assessed in the ICAAP document.

C. Quantitative Disclosures under Basel-III:

a)	Capital requirements for Credit Risk: (@ 9% on Risk weighted Assets)		
	• Portfolios subject to standardised approach		1200.44
	• Securitisation exposures		Nil
b)	Capital requirements for Market Risk:		
	• Standardised duration approach		55.54
	• Interest Rate Risk	17.91	
	• Foreign exchange risk	2.05	
	• Equity risk	35.58	
c)	Capital requirements for Operational Risk:		
	• Basic indicator approach		131.16
	Total capital required @ 9%		1387.14
d)	Total Capital Funds available		2424.66
	Total Risk Weighted Assets		15412.73
	Common Equity Tier I CRAR %		15.23
	Tier I CRAR %		15.23
	Tier II CRAR %		0.50
	Total CRAR %		15.73

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, Treasury and Forex Policy of Risk Management 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 mitigation the risk in various areas and monitoring the same.

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

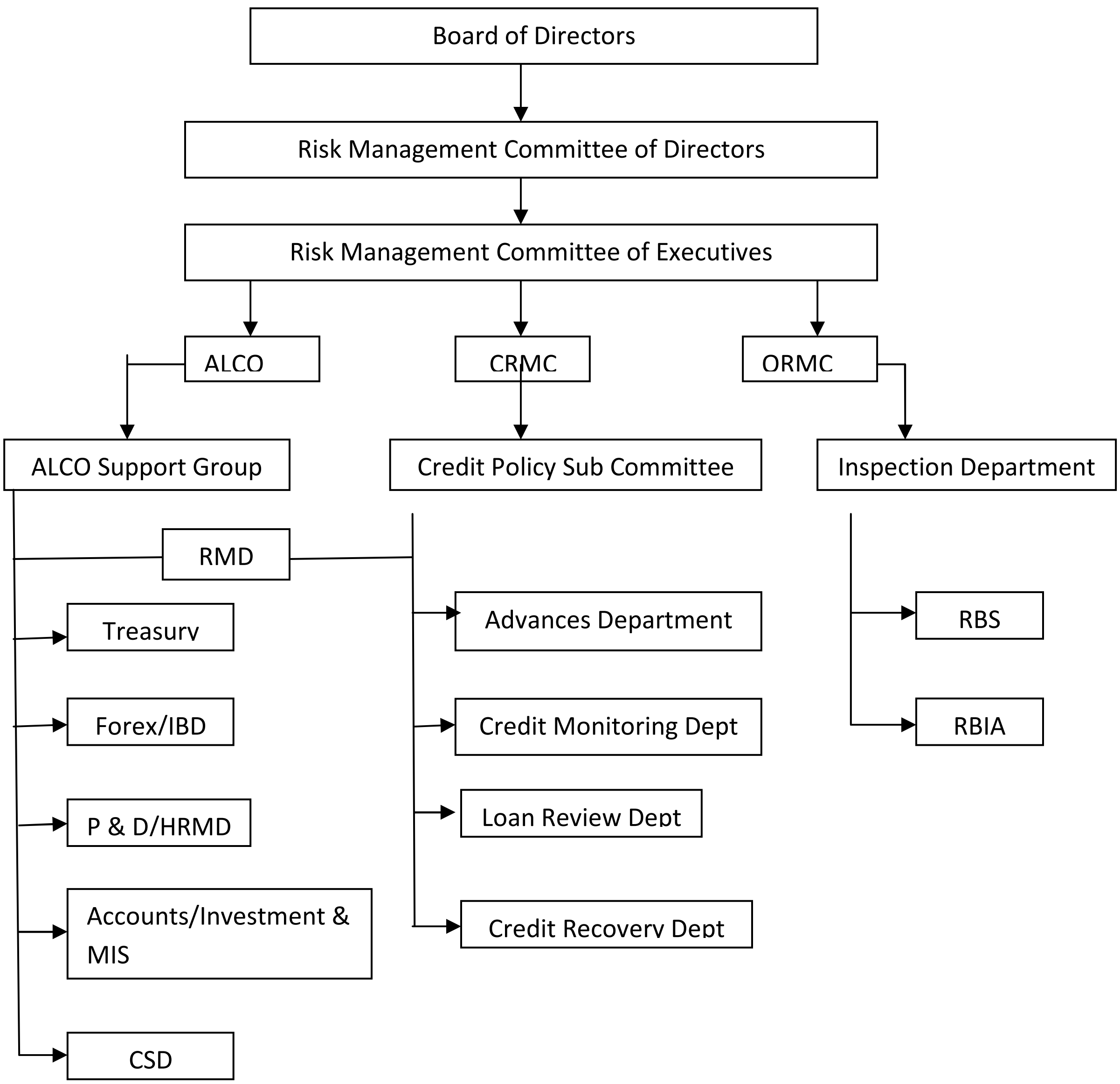

Table DF - 3
Credit Risk: General Disclosures

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 organisation structure, role 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 accounting purposes) as defined by Reserve Bank of India under Income Recognition, Asset Classification and provisioning (IRAC) norms (vide RBI Master Circular dated July 01, 2013).

Quantitative Disclosures

Total Gross Credit Risk Exposures including Geographic Distribution of Exposure:

Rs. in crore

Exposure as on 31.12.2014	Domestic	Overseas	Total
Funded Credit	19084.51	Nil	19084.51
Non-funded Credit	2310.61	Nil	2310.61
Non SLR Investment	265.10	Nil	265.10
Total Exposure	**21660.22**	**Nil**	**21660.22**

Industry type distribution of exposures 31.12.2014 Rs. in Crore

INDUSTRY /ACTIVITY	Funded Exposure	Non-Funded Exposure	Investment exposure	Total Exposure
Mining and Quarrying	45.09	1.14	0.00	46.23
Iron and Steel	865.25	344.18	0.61	1210.04
Other Metal and Metal Products	268.94	61.80	0.34	331.08
Electronics	32.78	9.12	0.49	42.39
Others (incl Electrical & Home Appliances)	291.15	86.13	0.00	377.28
Cotton Textiles	1072.24	132.95	0.00	1205.19
Other textiles	582.59	42.27	0.00	624.86
Food Processing	305.14	57.02	0.00	362.16
Beverages and Tobacco	21.44	4.78	0.00	26.22
Leather and Leather products	10.73	0.09	0.00	10.82
Wood and Wood Products	39.57	71.06	0.00	110.63
Paper and Paper Products	423.10	51.70	0.12	474.92
Petroleum, Coal Products and Nuclear Fuels	8.03	0.80	0.07	8.90
Drugs and Pharmaceuticals	56.07	6.22	0.41	62.70
Chemicals and Chemical Products (Dyes, Paints, etc.)	131.80	91.74	0.00	223.54
Rubber, Plastic and their Products	163.21	49.33	0.00	212.54
Glass & Glassware	3.02	0.00	0.00	3.02
Cement and Cement Products	15.18	0.00	0.00	15.18
Vehicles, Vehicle Parts and Transport Equipments & autoparts	72.95	3.56	0.43	76.94
Gems and Jewellery	33.33	0.01	0.00	33.34
Construction (Commercial Real Estate)	992.31	10.33	0.00	1002.64
Infrastructure	129.02	17.14	24.97	171.13
Other Industries	98.04	79.66	0.00	177.70
All Industries Total	**5660.98**	**1121.03**	**27.44**	**6809.45**
Residuary other advances	13423.53	1189.58	237.66	14850.77
Gross Exposure (funded + non-funded)	**19084.51**	**2310.61**	**265.10**	**21660.22**

The exposures to the following two industries are above 5% of Gross Credit Exposure as on 31.12.2014:
1. Iron & Steel Industry - 5.59%
2. Cotton Textile Industry - 5.56%

Residual contractual maturity breakdown of assets 31.12.2014 **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	573.66	28.27	24.16	12.50	638.59
2 to 7 Days	25.00	241.92	20.71	85.43	373.06
8 to 14 Days	0.00	897.59	19.87	93.66	1011.12
15 to 28 Days	33.18	164.25	313.90	14.06	525.39
29 Days to 3 Months	233.42	309.96	601.29	14.54	1159.21
Over 3 Months & upto 6 Months	797.84	452.17	910.21	177.70	2337.92
Over 6 Months & upto 1 Year	346.71	3494.63	1909.90	154.03	5905.27
Over 1 Year & upto 3 Years	247.33	7609.46	1318.95	145.52	9321.26
Over 3 Years & upto 5 Years	22.19	1253.71	149.05	0.00	1424.95
Over 5 Years	3.70	2344.37	1478.80	378.57	4205.44
Total	**2283.03**	**16796.33**	**6746.84**	**1076.01**	**26902.21**

Amount of NPAs (Gross)

Rs in crore

Sub-standard	300.43
Doubtful 1	24.89
Doubtful 2	17.40
Doubtful 3	11.27
Loss	6.71
Gross NPA Total	360.70

The Amount of Net NPAs is Rs.220.40 crore

The NPA ratios are as under

- Gross NPA to Gross Advances 2.12%
- Net NPAs to Net Advances – 1.31%

The movement of NPA is as under:

{as in Notes on Accounts 4.1.(iii)} **Rs in crore**

i. Opening balance at the beginning of the quarter (01.10.2014)	337.89
ii. Additions made during the quarter (01.10.14 to 31.12.14)	65.47
iii. Reductions during the relevant quarter	42.66
iv. Closing balance at the end of quarter as on 31.12.2014 (i + ii - iii)	360.70

The movement of provisions for NPAs are as under:

Rs in crore

i. Opening balance at the beginning of the quarter (01.10.2014)	119.23
ii. Provisions made during the quarter (01.10.14 to 31.12.14)	26.70
iii.Write-off/Write-back of excess provisions during the relevant period	5.63
iv. Closing Balance at the end of quarter as on 31.12.14 (i + ii – iii)	140.30

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 (01.09.2014)	1.72
ii. Provisions made during the quarter (01.10.14 to 31.12.14)	0.00
iii. Write-off during the relevant half year	0.00
iv. Write-back of excess provisions during the relevant half year	1.30
v. Closing Balance at the end of quarter as on 31.12.14 (i + ii – iii – iv)	0.42

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 Ratings, e) Brickwork and f) SMERA ratings 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

For exposure amounts after risk mitigation subject to the standardised approach, amount of a bank's outstandings (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 %	554.18	15114.41	15668.59
100 %	222.18	6614.44	6836.62
More than 100 %	118.25	770.60	888.85
Total outstanding after mitigation	894.61	22499.45	23394.06
Deducted (as per Risk Mitigation)	0.38	3614.81	3615.19

*Rated refers to the accounts rated by the approved external rating agencies