NEW CAPITAL ADEQUACY FRAMEWORK – BASEL II
DISCLOSURES UNDER PILLAR-3 AS ON 31.03.2013

TABLE DF – 1: SCOPE OF APPLICATION

a. The name of the top bank in the group to which the framework applies.

CITY UNION BANK LTD

b. An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group

i. **that are fully consolidated;**
ii. **that are pro-rata consolidated;**
iii. **that are given a deduction treatment; and**
iv. **that are neither consolidated nor deducted (e.g. Where the investment is risk weighted).**

The Bank is not having any subsidiary.

c. The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries.

Since the Bank is not having any subsidiary, this does not arise.

d. The aggregate amounts (e.g. current book value) of the bank's total interests in insurance entities, which are risk-weighted as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction.

The Bank does not have interest in any insurance entities.

DF – 2 : CAPITAL STRUCTURE

CAPITAL STRUCTURE – QUARTER ENDED 31.03.2013

Qualitative Disclosures:

Summary

<table>
<tr><td>Type of Capital</td><td>Features</td></tr>
<tr><td>Equity (Tier I)</td><td>During the year 2012-13, the Bank had allotted 17,39,237 shares to its eligible employees who have exercised their options granted under ESOS of the Bank and rights issue of shares to the tune of 12,89,87,972 shares allotted to the existing share holders including employees of our Bank. The Equity Capital of the Bank as on 31.03.2013 stood at Rs.47.44 crore.</td></tr>
<tr><td>Tier II Capital</td><td>The Bank has not raised Tier II capital during the current year 2011-12. The details of Lower Tier II capital to the tune of Rs.40.00 crs raised in earlier years is given below.
Type of Instrument : Unsecured, Redeemable and Non-convertible
Nature : Plain vanilla bonds with no special features like put or call option etc.
<table>
<tr><td>Date of Issue</td><td>Amount (Rs in crs)</td><td>Tenure (Months)</td><td>Coupon %</td><td>Rating</td></tr>
<tr><td>31.03.2006</td><td>30.00</td><td>121</td><td>8.90% semi annual</td><td>CARE – A+</td></tr>
<tr><td>30.03.2007</td><td>10.00</td><td>121</td><td>10.00% annual</td><td>CARE – A+</td></tr>
</table></td></tr>
</table>

Quantitative Disclosures

Sl. No.	Description	Amount (Rs in Crs)	
01.	Tier – I Capital		1640.67
	- Paid-up Share Capital - Total	47.44	
	- Reserves & Surplus - Total	1593.23	
	Amount deducted from Tier I Capital (if any)		
	- Intangible Assets	9.30	
	- Statutory Deductions (Spl. Reserve tax deduction)	28.88	
	- Investment Reserve trfd to Tier II Capital	2.38	40.56
	Total eligible Tier I Capital		**1600.11**
02.	**Tier – II Capital**		**85.88**
	a) Revenue Reserves (Investment Reserve)	2.38	
	b) Other General Provisions		
	b) Lower Tier II – Subordinated Debts *	22.70	
	c) Provision for Standard Assets	60.80	
03.	**Total Eligible Capital** (net of deductions from Tier I & Tier II Capital)		**1685.99**

* Total Tier II Bonds of Rs.40 cr. Less inadmissible/discount of Rs.17.30 cr)

DF – 3 : 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 maintainance 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 sucessfully migrated to the revised framework 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.

In accordance with the RBI's requirement, the Bank has continued to adopt Standardised Approach (SA) for Credit Risk and Basic Indicator Approach (BIA) for Operational Risk to compute capital as on March 31, 2013. Besides this, the Bank continues to apply the Standardised Duration Approach(SDA) for computing capital requirement for Market Risk.

Reserve Bank of India has prescribed Banks to maintain a minimum CRAR of 9% with regard to credit risk, market risk and operational risk on an ongoing basis. The total Capital to Risk weighted Assets Ratio (CRAR) as per Basel II guidelines works to 13.98% as on 31.03.2013 (as against 9%). The Tier I CRAR stands at 13.27% as against RBI's prescription of 6.00%.

The Bank has followed the RBI guidelines in force, to arrive at the eligible capital, risk weighted assets and CRAR. As regards the adequacy of capital to support the future activities, the Bank has drawn an assessment of capital requirement for three years with the approval of the Board. The surplus CRAR shall act as a buffer to support the future activities.

Quantitative disclosures **(Rs. in crore)**

a)	Capital requirements for Credit Risk: (@ 9% on Risk weighted Assets)		
	• Portfolios subject to standardised approach		978.53
	• Securitisation exposures		Nil
b)	Capital requirements for Market Risk:		
	• Standardised duration approach		23.54
	o Interest Rate Risk	11.71	
	o Foreign exchange risk	1.71	
	o Equity risk	10.12	
c)	Capital requirements for Operational Risk:		
	• Basic indicator approach		83.18
	Total capital required @ 9%		1085.25
d)	Total and Tier I Capital Ratio:		
		Total CRAR	13.98%
		Tier 1 CRAR	13.27%

TABLE DF – 4 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 acceptabilitity 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, 2011).

Quantitative Disclosures

Total Gross Credit Risk Exposures including Geographic Distribution of Exposure:
(including Non-fund exposure)

Rs. in crore

Exposure as on 31.03.2013	Domestic	Overseas	Total
Fund based	16869.99	Nil	16869.99
Non-fund based	2026.40	nil	2026.40
Total	18896.39	nil	18896.39

Industry type distribution of exposures 31.03.2013 Rs. in Crore

INDUSTRY /ACTIVITY	Funded Exposure	Non-Funded Exposure	Total Exposure
Mining and Quarrying	36.28	3.05	39.33
Iron and Steel	914.86	460.08	1374.94
Other Metal and Metal Products	219.75	49.66	269.41
Non-metalic mineral products	29.16	16.63	45.79
Electronics	19.46	8.01	27.47
Others (incl Electrical & Home Appliances)	193.14	76.12	269.26
Cotton Textiles	896.99	69.93	966.92
Other textiles	389.66	15.59	405.25
Food Processing	237.45	32.77	270.22
Beverages and Tobacco	89.73	0.15	89.88
Leather and Leather products	10.05	2.07	12.12
Wood and Wood Products	22.19	20.34	42.53
Paper and Paper Products	350.72	22.46	373.18
Petroleum, Coal Products and Nuclear Fuels	6.64	0.23	6.87
Drugs and Pharmaceuticals	83.90	6.47	90.37
Chemicals and Chemical Products (Dyes, Paints, etc.)	117.56	41.29	158.85
Rubber, Plastic and their Products	93.30	34.24	127.54
Glass & Glassware	1.52	0.00	1.52
Cement and Cement Products	11.72	0.00	11.72
Vehicles, Vehicle Parts and Transport Equipments & autoparts	52.36	3.42	55.78
Gems and Jewellery	20.66	11.00	31.66
Construction (Commercial Real Estate)	848.78	9.22	858.00
Infrastructure	174.88	24.43	199.31
Publication & Printing	81.38	9.47	90.85
Computer Software	32.58	0.09	32.67
Other Industries	22.21	28.29	50.50
All Industries Total	**4956.93**	**945.01**	**5901.94**
Residuary other advances	11913.06	1081.39	12994.45
Gross Exposure (funded + non-funded)	**16869.99**	**2026.40**	**18896.39**

The exposures to the following two industries are above 5% of Gross Credit Exposure as on 31.03.2013:

1. Iron & Steel Industry - 7.26%
2. Cotton Textile Industry - 5.10%

Residual contractual maturity breakdown of assets 31.03.2013 **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)	Invest-ments (Net)	Fixed & Other Assets	Total
1 Day	780.44	42.86	2.76	11.67	837.74
2 to 7 Days	19.00	624.31	42.31	21.33	706.95
8 to 14 Days	0.00	1271.22	4.81	24.37	1300.40
15 to 28 Days	63.32	232.32	352.61	6.28	654.54
29 Days to 3 Months	255.13	827.75	849.26	8.78	1940.92
Over 3 Months & upto 6 Months	148.04	977.01	759.04	104.34	1988.43
Over 6 Months & upto 1 Year	248.65	3078.90	1431.06	142.58	4901.20
Over 1 Year & upto 3 Years	226.19	5870.34	1306.25	129.99	7532.77
Over 3 Years & upto 5 Years	21.82	1104.41	131.00	0.00	1257.24
Over 5 Years	7.88	1216.92	387.70	244.39	1856.89
Total	**1770.49**	**15246.06**	**5266.80**	**693.74**	**22977.08**

Amount of NPAs (Gross)

Rs in crore

Sub-standard	119.01
Doubtful 1	26.21
Doubtful 2	18.14
Doubtful 3	2.65
Loss	7.09
Gross NPA Total	173.10

The Amount of Net NPAs is Rs.96.39 crore

The NPA ratios are as under

- Gross NPA to Gross Advances 1.13%
- Net NPAs to Net Advances – 0.63%

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 year (01.04.12)	123.54
ii. Additions made during the year (4 quarters)	223.43
iii. Reductions during the year (4 quarters)	173.87
iv. Closing balance at the end of year 31.03.13 (i + ii - iii)	173.10

The movement of provisions for NPAs are as under:

Rs in crore

i. Opening balance at the beginning of the year (01.04.12)	68.41
ii. Provisions made during the year (4 quarters)	106.00
iii.Write-off/Write-back of excess provisions (4 quarters)	98.00
iv. Closing Balance at the end of quarter 31.03.13 (i + ii – iii)	76.41

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 year (01.04.2012)	7.45
ii. Provisions made during the year (4 quarters)	0.05
iii. Write-off (4 quarters)	5.80
iv. Write-back of excess provisions (4 quarters)	0.67
v. Closing Balance at the end of quarter 31.03.2013 (i + ii – iii – iv)	1.03

TABLE – DF - 5

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 and d) FITCH India 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'.

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 %	719.35	11645.28	12364.63
100 %	254.65	5700.37	5955.02
More than 100 %	338.06	576.39	914.45
Total outstanding after mitigation	1312.06	17922.04	19234.10
Deducted (as per Risk Mitigation)	0.62	4781.78	4782.40

TABLE DF – 6

CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDISED APPROACHES

Qualitative Disclosures

The Bank has put in place Credit Risk Mitigation and Collateral Management Policy with the primary objective of

- Mitigation of Credit Risks and enhancing awareness on identification of appropriate collateral taking into account the spirit of Basel II / RBI guidelines
- Optimizing the benefit of Credit Risk Mitigation in computation of capital charge as per the approaches laid down in Basel II / RBI guidelines.

Valuation and methodologies are detailed in Credit Risk Management Policy, Valuation Policy and Loan Policy of the Bank.

The Bank recognises the following Financial Collateral (FC) for Credit Risk Mitigation.

a) Cash or Cash equivalent (Bank Deposits/Certificate of Deposits issued by the Bank, etc.)
b) Gold Jewels
c) Indira Vikas Patras
d) Kisan Vikas Patras
e) National Savings Certificates
f) Life Insurance Policies with a declared surrender value
g) Securities issued by Central and State Governments
h) Debt securities rated by a recognized Credit Rating Agency where these are either:

- at least BBB(-) when issued by public sector entities; or
- at least A when issued by other entities (including banks and Primary Dealers); or
- at least PR3/P3/F3/A3 for short term debt instruments

i) Debt securities though not rated by Credit Rating Agency but

- issued by a bank and
- listed on a recognized stock exchange; and
- classified as senior debt.

The Bank accepts guarantees from individuals with considerable net worth and the Corporates, besides guarantee issued by Government, other Commercial banks, ECGC and CGTSI.

Concentration Risk in Credit Risk Mitigation: All types of securities eligible for mitigation are easily realizable financial securities. As such, presently no limit/ceiling has been prescribed to address the concentration risk in credit risk mitigants recognized by the Bank. The portion of advances subjected to CRM including non-funded advances amounted to 27.70% of outstanding total of funded and non-funded credit.

Quantitative Disclosures

a. For each separately disclosed credit risk portfolio, the total exposure (after, where applicable, on-or off balance sheet netting) that is covered by eligible financial collateral (FCs) after the application of haircuts is given below:		
Portfolio category	Financial collateral	Quantum of exposure covered Rs in crore
1. Funded - Credit	Bank's own deposits	795.39
2. Funded - Credit	Gold jewels	3436.37
3. Funded - Credit	LIC/KVP/NSC	5.82
4. Non Funded	Bank's own deposits	439.91
b. For each separately disclosed portfolio, the total exposure (after, on balance sheet netting) that is covered by Guarantees:		
Portfolio category	Guaranteed by	Quantum of exposure covered Rs in crore
1. Funded - Credit	ECGC	207.37
2. Funded - Credit	AP State Government	5.55
3. Funded – Credit	CGTSI	34.23

<u>TABLE DF – 7</u>

<u>Securitization : Disclosure for Standardised Approach</u>

Qualitative Disclosures:

The Bank has not undertaken any securitization activity.

Quantitative Disclosures:

NIL

TABLE DF – 8
Market Risk in Trading Book

Qualitative Disclosures:

Market Risk in trading book is assessed as per the Standardised duration method. The capital charge for HFT and AFS is computed as per Reserve Bank of India prudential guidelines.

Quantitative Disclosures:

The capital requirements for 31.3.2013

- Interest Rate Risk - Rs. 11.71 crore
- Equity Position Risk - Rs. 10.12 crore
- Foreign Exchange Risk - Rs. 1.71 crore

Total - Rs. 23.54 crore

TABLE DF – 9

OPERATIONAL RISK

Qualitative Disclosures

Operational Risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputation risks.

The Bank has put in place Operational Risk Management Policy duly approved by the Board. This policy outlines the Organisation Structure and covers the process of identification, assessment/measurement and control of various operational risks.

The other policies adopted by the Bank which deal with the management of operational risks are Inspection Policy, Information Security Audit Policy and Policy on Modified code of conduct for Know-Your Customer & Anti-Money Laundering Standards.

Operational Risks in the Bank are managed through comprehensive and well-articulated internal control framework. Operational risk is mitigated by effecting insurance on all aspects and cover for other potential operational risks.

Capital charge for Operational Risk is computed as per the Basic Indicator Approach. The average of the gross income, as defined in the New Capital Adequacy Framework guidelines, for the previous three years i.e. 2009-10, 2010-11 and 2011-12 is considered for computing the capital charge. The required capital is Rs.83.18 crore.

TABLE DF – 10

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Qualitative Disclosures:
Interest rate risk is the risk where changes in the market interest rates might affect a bank's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as also the net-worth of the Bank (economic value perspective). The risk from earnings perspective can be measured as impact in the Net Interest Income (NII) or Net Interest Margin (NIM). Similarly, the risk from economic value perspective can be measured as drop in the Economic value of Equity (EVE).

The impact on income (earning perspective) is measured through use of Gap Analysis by applying notional rate shock up to 200 bps as prescribed.

For the calculation of impact on earnings, the Traditional Gap is taken from the Rate Sensitivity statement and based on the remaining period from the mid point of a particular bucket, the impact for change in interest rates up to 200 bps is arrived at for one year time horizon.

The Bank has adopted Duration Gap Analysis for assessing the impact (as a percentage) on the Economic Value of Equity (Economic Value Perspective) by applying a notional interest rate shock of 200 bps. As per the draft guidelines issued by RBI DBOD.No. BP. 7/21.04.098/ 2005-06 dated April 17, 2006, the Bank calculates Modified Duration Gap on Assets & Liabilities and arrive at the impact on Economic Value of Equity. On November 04, 2010, RBI issued a circular on Interest Rate Risk using Duration Gap Analysis and these guidelines have also been taken into account while calculating IRRBB. The Bank is calculating IRRBB on a quarterly basis.

Quantitative Disclosures:

a) The impact of change in Interest Rate i.e. Earnings at Risk for 200 bps interest rate shock as on 31.03.2013 is Rs.61.00 crore.

b) The impact of change in market value of Equity for an interest rate shock of 200 bps as on 31.03.2013 is 10.85%.