

NEW CAPITAL ADEQUACY FRAMEWORK – BASEL II
DISCLOSURES UNDER PILLAR-3 AS ON 31.03.2011

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 31.03.2011

Qualitative Disclosures:

Summary

Type of Capital	Features															
Equity (Tier I)	During the year 2010-11, the Bank had allotted 50,31,003 shares to its eligible employees who have exercised their options granted under ESOS of the Bank. The Equity Capital of the Bank as on 31.03.2011 stood at Rs.40.50 crore.															
Tier II Capital	<p>The Bank has not raised Tier II capital during the current year 2010-11. The details of Lower Tier II capital to the tune of Rs.40.00 crs raised in earlier years is given below.</p> <p>Type of Instrument : Unsecured, Redeemable and Non-convertible Nature : Plain vanilla bonds with no special features like put or call option etc.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Date of Issue</th> <th>Amount (Rs in crs)</th> <th>Tenure (Months)</th> <th>Coupon %</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">31.03.2006</td> <td style="text-align: center;">30.00</td> <td style="text-align: center;">121</td> <td style="text-align: center;">8.90% semi annual</td> <td style="text-align: center;">CARE – A+</td> </tr> <tr> <td style="text-align: center;">30.03.2007</td> <td style="text-align: center;">10.00</td> <td style="text-align: center;">121</td> <td style="text-align: center;">10.00% annual</td> <td style="text-align: center;">CARE – A+</td> </tr> </tbody> </table>	Date of Issue	Amount (Rs in crs)	Tenure (Months)	Coupon %	Rating	31.03.2006	30.00	121	8.90% semi annual	CARE – A+	30.03.2007	10.00	121	10.00% annual	CARE – A+
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31.03.2006	30.00	121	8.90% semi annual	CARE – A+												
30.03.2007	10.00	121	10.00% annual	CARE – A+												

Quantitative Disclosures

Sl. No.	Description	Amount (Rs in Crs)	
01.	Tier – I Capital		995.68
	- Paid-up Share Capital - Total	40.50	
	- Reserves & Surplus - Total	955.18	
	Amount deducted from Tier I Capital (if any)		
	- Intangible Assets	13.57	13.57
	Total eligible Tier I Capital		982.11
02.	Tier – II Capital		75.35
	a) Revenue Reserves	1.31	
	b) Lower Tier II – Subordinated Debts	40.00	
	c) Provision for Standard Assets	34.04	
03.	Total Eligible Capital (net of deductions from Tier I & Tier II Capital)		1057.46

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 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 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, 2011. 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 12.75% as on 31.03.2011 (as against 9%). The Tier I CRAR stands at 11.84% 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		674.09
• Securitisation exposures		-nil-
(b) Capital requirements for market risk:		
• Standardised duration approach		21.07
- Interest rate risk	10.51	
- Foreign exchange risk	2.26	
- Equity risk	8.30	
(c) Capital requirements for operational risk:		
• Basic indicator approach;		51.37

	Total capital required @ 9%	746.53

(d) Total and Tier 1 capital ratio:		
	Total CRAR	12.75%
	Tier I CRAR	11.84%

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 measurement is done 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, 2009)

Quantitative Disclosures

Total Gross Credit Risk Exposures including Geographic Distribution of Exposure:
Rs. in crore

Outstandings as on 31.03.2011	Domestic	Overseas	Total
Fund based	9328.97	Nil	9328.97
Non-fund based	802.81	nil	802.81
Total	10131.78	nil	10131.78

Industry type distribution of exposures :
DETAILS ON INDUSTRYWISE EXPOSURES -31.03.2011
 (Total advances to Small, Medium & Large Industries) **Rs. in Crore)**

S.No	INDUSTRY NAME	OUTSTANDING BALANCE
1	Mining	4.69
2	Iron and Steel	485.39
3	Other Metal & Metal Products	141.47
4	All Engineering	68.98
4 (a)	Of which Electronics 17.17	
5	Electricity	50.00
6	Cotton Textiles	788.19
7	Other Textiles	238.05
8	Food Processing	136.33
9	Vegetable Oils & Vanaspathi	0.93
10	Paper & Paper Products	218.80
11	Rubber & Rubber Products	6.94
12	Chemicals, Dyes, Paints etc.	99.05
12a	Drugs & Pharmaceuticals 55.53	
12b	Other chemicals 43.52	
13	Leather & Leather Products	3.93
14	Gems & Jewellery	9.48
15	Construction* (Commercial Real Estate)	439.58
16	Automobile including Trucks	33.95
17	Infrastructure	60.86
18	Computer software	9.99
19	NBFC	132.88
20	Other Industries	246.87
21	All Traders	1969.84
	Residual advances to balance Gross Adv	4182.77
	Gross Advances	9328.97

Residual contractual maturity breakdown of assets 31.03.2011**Rs in crore**

PERIOD	Cash, RBI Balance and Balance with all Banks	Investments (Net)	Advances (Net)	Fixed & Other Assets	Total
1 Day	422.34	4.31	25.51	6.32	458.48
2 to 7 Days	5.00	23.86	121.07	4.57	154.50
8 to 14 Days	0.00	0.00	399.23	5.56	404.79
15 to 28 Days	31.62	126.50	134.15	55.19	347.46
29 Days to 3 Months	162.52	565.09	70.58	6.26	804.45
Over 3 Months & upto 6 Months	115.01	423.66	112.55	6.00	657.22
Over 6 Months & upto 1 Year	155.59	629.52	259.78	117.07	1161.96
Over 1 Year & upto 3 Years	348.78	1407.77	6456.56	113.67	8326.78
Over 3 Years & upto 5 Years	10.43	48.46	781.81	0.00	840.70
Over 5 Years	7.91	387.06	894.22	127.92	1417.11
Total	1259.20	3616.23	9255.46	442.56	14573.45

Amount of NPAs (Gross)

Rs in crore

Sub-standard	74.02
Doubtful 1	18.52
Doubtful 2	13.98
Doubtful 3	1.61
Loss	4.35
Gross NPA Total	112.48

The Amount of Net NPAs is Rs.48.42 crore**The NPA ratios are as under**

- Gross NPA to Gross Advances 1.21%
- Net NPAs to Net Advances – 0.52%

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 (01.04.10)	88.23
ii. Additions made during the year (4 quarters)	120.66
iii. Reductions during the year (4 quarters)	96.41
iv. Closing balance at the end of year 31.03.11 (i + ii - iii)	112.48

The movement of provisions for NPAs are as under:

	Rs in crore
i. Opening balance at the beginning of the year (01.04.10)	48.60
ii. Provisions made during the year (4 quarters)	67.25
iii. Write-off/Write-back of excess provisions (4 quarters)	52.50
iv. Closing Balance at the end of quarter 31.03.11 (i + ii – iii)	63.35

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 (01.04.10)	8.03
ii. Provisions made during the year (4 quarters)	0.86
iii. Write-off (4 quarters)	--
iv. Write-back of excess provisions (4 quarters)	--
v. Closing Balance at the end of quarter 31.03.2011 (i + ii – iii – iv)	8.89

TABLE – DF - 5**CREDIT RISK: DISCLOSURES FOR PORTFOLIO SUBJECT TO THE STANDARDISED APPROACH****Qualitative Disclosures**

The Bank is using the services of the four External Credit Rating Agencies approved by Reserve Bank of India, namely a) CRISIL, b) ICRA, c) CARE and d) FITCH 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 %	724.88	7964.38	8689.26
100 %	189.64	3922.07	4111.71
More than 100 %	86.11	268.40	354.51
Total outstanding after mitigation	1000.63	12154.85	13155.48
Deducted (as per Risk Mitigation)	12.09	1944.72	1956.81

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 20.51%.

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	481.00
2. Funded - Credit	Gold jewels	1046.55
3. Funded - Credit	LIC/KVP/NSC	5.86
4. Non Funded	Bank's own deposits	345.23

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	187.09
2. Funded - Credit	AP State Government	10.00
3. Funded - Credit	CGTSI	2.22

TABLE DF – 7

Securitization : Disclosure for Standardised Approach

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 31.3.2011

- Interest Rate Risk - Rs. 10.51 crore
- Equity Position Risk - Rs. 8.30 crore
- Foreign Exchange Risk - Rs. 2.26 crore
- Total - Rs. 21.07 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. 2007-08, 2008-09 and 2009-10 is considered for computing the capital charge. The required capital is Rs.51.37 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 31.03.2011 is Rs.58.54 crore.

b) The impact of change in market value of Equity for an interest rate shock of 200 bps as on 31.03.2011 is 8.04%.