Disclosure under Basel III norms as on 31st December 2013

Table DF-2: Capital Adequacy

Reserve Bank of India issued Guidelines based on the Basel III reforms on capital regulation on 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 will be fully implemented as on March 31, 2018. RBI issued detailed Guidelines on Composition of Capital Disclosure Requirements on May 28, 2013. The Basel III Capital Regulations have been consolidated in Master Circular – Basel III Capital Regulations vide circular No.DBOD.No.BP.BC.2/21.06.201/2013-14 dated July 1 2013.

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 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:

a) 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,
b) Increase the risk coverage of the capital framework
c) Introduce leverage ratio to serve as a backstop to the risk-based capital measure
d) 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.

Under the Basel III Capital Regulations, Banks are required to maintain a minimum Pillar 1 Capital to Risk-weighted Assets Ratio (CRAR) of 9% on an on-going basis (other than capital conservation buffer and countercyclical capital buffer etc.) Besides the minimum capital requirements, Basel III also provides for creation of capital conservation buffer (CCB). The CCB requirements kick in from March 31, 2015 and are to be fully implemented by March 31, 2018.

The total regulatory capital fund under Basel- III norms will consist of the sum of the following categories:-

(i) Tier 1 Capital (going-concern capital*): comprises of:-
  (a) Common Equity Tier 1 capital
  (b) Additional Tier 1 capital

(ii) Tier 2 Capital (gone-concern capital*)

(*From regulatory capital perspective, going-concern capital is the capital which can absorb losses without triggering bankruptcy of the bank. Gone-concern capital is the capital which will absorb losses only in a situation of liquidation of the bank).

Elements of Capital funds –

(i) Common Equity Tier 1 capital

- Common shares
- Stock surplus (share premium of Common Equity instruments)
- Statutory reserves
- Capital reserves representing surplus arising out of sale proceeds of assets
- Other disclosed free reserves, if any
- Balance in Profit & Loss Account at the end of previous year
- Profit for current year calculated on quarterly basis as per the formula given in RBI guidelines/notification. (Less: Regulatory adjustments/ deductions)

(ii) Additional Tier 1 capital

- Perpetual Non-cumulative Preference shares (PNCPS)
- Stock surplus (share premium of Additional Tier 1 capital instruments)
- Debt capital instruments
- Any other type of instruments as notified by RBI from time to time.
- (Less: Regulatory adjustments/ deductions)

(ii) Tier 2 Capital

- General Provisions and Loss Reserves
- Debt capital instruments issued by banks
- Preference share capital instruments (PCPS/RNCPS/RCPS)
- Stock surpluses (premium of Tier 2 capital instruments)
- Revaluation reserves at a discount of 55%
- Any other type of instruments generally notified by RBI for inclusion under Tier 2 capital (Less: Regulatory adjustments/deductions)

1	**Qualitative Disclosure**
1.1	**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 banks' capital funds to meet the future business growth is also assessed in the ICAAP document.

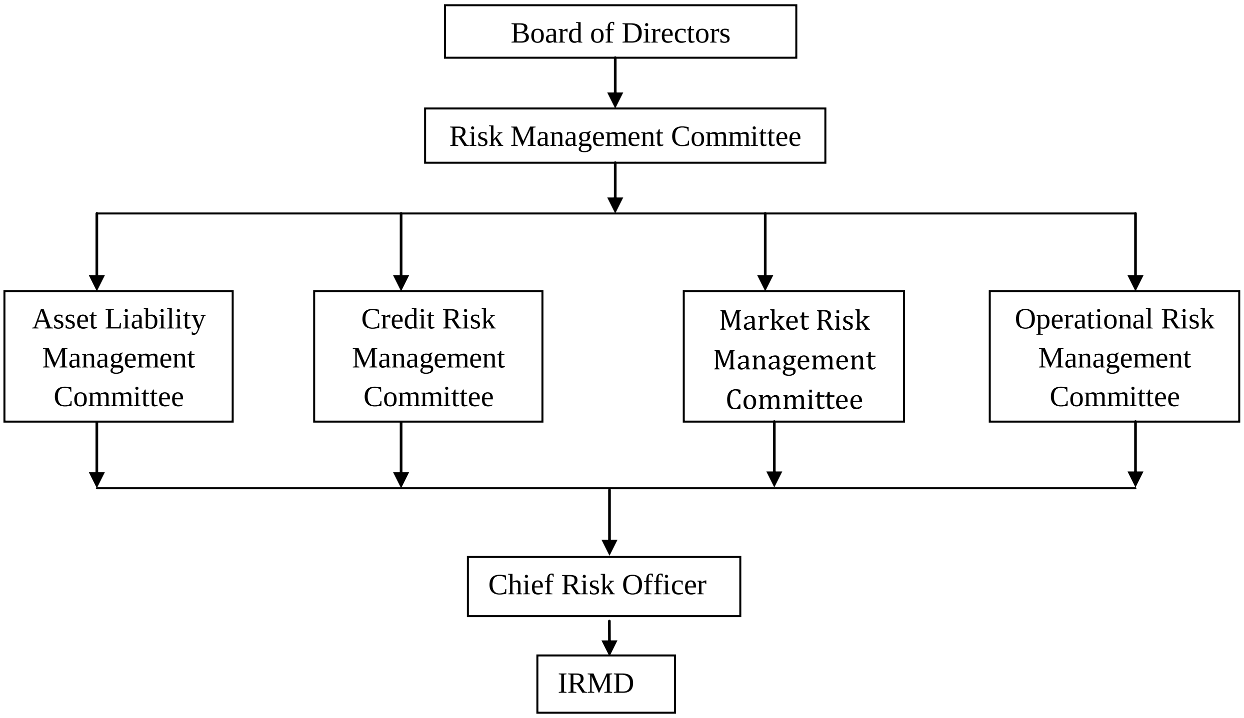
2	**Quantitative Disclosure**	
		Amount in Million
(a)	**Capital requirements for Credit Risk**	**20,307.28**
	Portfolios subject to standardized approach	20,307.28
	Securitization exposures	0.00
(b)	**Capital requirements for Market Risk (Standardised duration approach)**	**1,099.63**
	Interest Rate Risk	781.60
	Foreign Exchange Risk (including gold)	9.00
	Equity Risk	309.03
(c)	**Capital requirements for Operational Risk (Basic Indicator Approach)**	**1,954.01**
	Total Capital Requirement at 9%{ (a)+ (b)+(c) }	**23,360.92**
	Total Capital Fund	**31,671.88**
	Common Equity Tier- I CRAR %	10.54
	Tier- I CRAR %	10.54
	Total CRAR%	12.20

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 appropriate tradeoff between risk and return to maximize shareholder value.

The bank has a comprehensive risk management system set up to address various risks and has set up an Integrated Risk Management Department, 'IRMD', which is independent of operational departments. Bank has a Risk Management Committee functioning at apex level for formulating, implementing and reviewing bank's risk management measures pertaining to credit, market and operational risk. Apart from the Risk Management Committee of the Board at apex level, the Bank has a strong Bank-wide risk management structure comprising of Asset Liability Management Committee, Credit Risk Management Committee, Market Risk Management Committee and Operational Risk Management Committee at senior management level, operational risk management specialists in all Regional Offices and dedicated mid office at Treasury Department/International Banking Division at operational level.

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



<u>Table DF-3: Credit Risk: General Disclosures</u>

1. Qualitative Disclosure

	Definition of impaired credit and past dues considered by bank for accounting purposes
	The guidelines as laid down by RBI Master Circular No. DBOD.No.BP.BC.8/21.04.048/2013-14 dated July 1, 2013, on Asset classification, Income Recognition and Provisioning to Advances portfolio are followed while classifying Non-performing Assets (NPAs). The guidelines are as under: a) An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. b) A non performing asset (NPA) is a loan or an advance where; i) interest and / or installment of principal remains overdue for a period of more than 90 days in respect of a term loan, ii) the account remains 'out of order', in respect of an Overdraft / Cash Credit (OD/ CC), iii) the bill remains overdue for a period of more than 90 days in the case of bills Purchased and discounted, iv) The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops, v) The installment of principal or interest thereon remains overdue for one crop season for long duration crops, vi) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of RBI guidelines on Securitization dated February 1, 2006. vii) In respect of derivative transactions, the overdue receivables representing positive Mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

	Credit risk management practices of our Bank The bank has a comprehensive credit risk management policy which deals with identification, assessment, measurement and mitigation of credit risk. The policy has defined credit risk as the possibility of losses associated with the diminution in the credit quality of the borrower or the counter party or the failure on its part to meet its obligations in accordance with the agreed terms. The Credit Risk Management Committee, an executive level committee is entrusted with the task of overseeing various risk management measures envisaged in the policy. The Credit Risk Management Committee also deals with issues relating to credit risk management policy and procedures and analyse, manage and control credit risk on a bank wide basis. Credit risk management policy primarily addresses the credit risk inherent in advances. The principal aspects covered under this policy include credit risk rating, credit risk monitoring, credit risk mitigation and country risk management. The major specific credit risk management measures followed by bank, as listed out in the credit risk management policy are given in following points. • The credit/country risk associated with exposures, like inter-bank deposits and export bill discounting, to different countries are consolidated regularly and monitored by the Board. • Bank uses a robust risk rating framework for evaluating credit risk of the borrowers. The bank uses segment-specific rating models that are aligned to target segment of the borrowers. • Risks on various counter-parties such as corporates, banks, are monitored through counter-party exposure limits, also governed by country risk exposure limits in case of international transactions. • The bank manages risk at the portfolio level too, with portfolio level prudential exposure limits to mitigate concentration risk.

2. Quantitative Disclosure

a) Gross Credit Risk Exposures as on 31st December 2013

Amount in Million

Particulars	Exposure	Amount	Total
Fund Based	Loans & Advances	335,084.55	493,658.61
	Others (Fixed Assets, Other Assets etc)	42,723.22	
	Investments held under Banking Book	115,850.84	
Non Fund Based	LC/BG	11,039.72	23,195.01
	Forward Contracts	7,098.51	
	Others	5,056.78	
Grand total of Credit Risk Exposure			**516,853.62**

b)	Geographic Distribution of Credit Risk Exposure as on 31st December 2013

Particulars	Amount in Million
Domestic	516,853.62
Overseas	0.00
Total	**516,853.62**

c)	Industry-Wise Distribution of gross advances and NPAs as on 31st December, 2013

Amount in Million

Industry Name	Standard Assets	GNPA	Gross Advance
A. Mining and Quarrying	299.53	14.03	313.56
B. Food Processing	7220.76	49.27	7270.02
C. Beverages(Excluding Tea & Coffee)and Tobacco	444.21	7.73	451.95
D. Textiles	9986.35	371.75	10358.09
E. Leather and Leather products	760.04	0.74	760.78
F. Wood and Wood Products	927.15	10.65	937.81
G. Paper and Paper Products	1875.77	30.87	1906.64
H. Petroleum(non-infra),Coal Products(non-mining)and Nuclear Fuels	1677.46	150.09	1827.56
I. Chemicals and Chemical Products(Dyes, Paints, etc)	3642.31	87.20	3729.51
J. Rubber, Plastic and their Products	6753.28	1.03	6754.31
K. Glass and Glassware	33.04	0.02	33.06
L. Cement and Cement Products	4096.60	4.88	4101.47
M. Basic Metal and Metal products	16171.69	843.18	17014.87
N. All Engineering	2345.45	18.30	2363.74
O. Vehicles, Vehicle Parts and Transport Equipments	4522.47	1.39	4523.87
P. Gems and Jewellery	6486.41	506.68	6993.08
Q. Construction	4598.03	14.96	4612.99
R. Infrastructure	57365.31	1786.35	59151.65
S. Other Industries	7187.93	104.75	7292.68

d)	Residual Contractual Maturity breakdown of Assets

Amount in Million

Time Period	Cash & Balance with RBI	Balance with other banks & money at call & short notice	Investments	Advances	Fixed Assets	Other Assets
Up to 14 days	7,734.92	2,932.89	2,129.30	24,517.19	-	391.05
15-28 days	346.59	2,087.61	575.76	13,362.21	-	180.97
29-3 months	1,083.51	4,567.93	5,087.53	46,003.66	-	502.70
3-6 months	2,201.47	399.02	5,843.14	44,643.03	-	241.30
6-12 months	2,469.45	155.46	5,178.04	70,122.88	-	261.40
1-3 years	4,272.29	-	24,542.26	63,222.25	-	1367.34
3-5 years	569.42	-	20,278.60	15,089.17	-	442.38
over 5 years	2,223.83	-	70,596.35	56,258.02	4,052.50	4,239.37
Total	**20,901.49**	**10,142.92**	**134,231.00**	**333,218.41**	**4,052.50**	**7,626.50**

e)	The composition of Gross NPAs and NPIs, Net NPAs, NPA ratios and provision for GNPAs and GNPIs as on 31st December 2013 and movement of gross NPAs and provisions during the quarter ended 31st December 2013 are given in following table.

(Rs in Million)

1.	Amount of Gross NPAs	
	• Substandard	3900.58
	• Doubtful-I	1088.05
	• Doubtful-2	66.73
	• Doubtful-3	20.26
	• Loss	470.69
2.	Net NPA	3919.27
3.	NPA ratios	
	• Gross NPA to Gross Advance:	1.66
	• Net NPA to Net Advance:	1.18
4.	Movement of N PA (Gross)	
	• Opening Gross NPA	6143.34
	• Additions to Gross NPA	1030.37
	• Reductions to Gross NPA	1627.40
	• Closing Balance of Gross NPA	5546.31
5.	Movement of N PA Provisions	
	• Opening balance of NPA Provisions held	1543.00
	• Provisions made during the period	252.28
	• Deductions during the period	360.84
	• Closing Balance of NPA Provisions	1434.44
6.	Amount of Non Performing Investments (Gross)	50.29
7.	Amount of Provisions held NP Investments	50.29
8.	Movement of Provisions for Depreciation on Investments	
	• Opening Balance of Provisions for Depreciation	194.46
	• Provisions made during the period	0.00
	• Write-offs / Write-back of excess provisions during the period	36.17
	• Closing Balance of Provisions for Depreciation	158.29

Table DF-4: Credit Risk: Disclosure for Portfolios under Standardized Approach

1. Qualitative Disclosure

a. Names of credit rating agencies used

Bank has approved all the six External Credit Rating Agencies accredited by RBI for the purpose of credit risk rating of domestic borrowal accounts that forms the basis for determining risk weights under Standardized Approach. External Credit Rating Agencies approved are:

1. CRISIL
2. CARE
3. India Ratings and Research Private Limited (Formerly FITCH INDIA)
4. ICRA
5. Brickwork Ratings India Pvt. Ltd (BRICKWORK)
6. SMERA Ratings Ltd

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 below mentioned procedures as laid down in the Basel II guidelines for use of external ratings:

- The external rating assigned by an agency is considered only if it fully takes into account the credit exposure of the bank.
- If an issuer has a long- term exposure with an external long term rating that warrants a risk weight of 150 percent, all unrated claims on the same counter-party, whether short term or long-term, should also receive a 150 percent risk weight, unless the bank uses recognized credit risk mitigation techniques for such claims.
- If an issuer has a short-term exposure with an external short term rating that warrants a risk weight of 150 per cent, all unrated claims on the same counter-party, whether long-term or short-term, should also receive a 150 per cent risk weight, unless the bank uses recognized credit risk mitigation techniques for such claims.
- The unrated short term claim of counterparty will attract a risk weight of at least one level higher than the risk weight applicable to the rated short term claim on that counter-party. If a short-term rated facility to counterparty attracts a 20 per cent or a 50 per cent risk weight, unrated short-term claims to the same counter-party cannot attract a risk weight lower than 30 per cent or 100 per cent respectively.

b. Process used to transfer public issue ratings onto comparable assets in the banking book

(i) In circumstances where the borrower has a specific assessment for an issued debt - but the bank's claim is not an investment in this particular debt - the rating applicable to the specific debt (where the rating maps into a risk weight lower than that which applies to an unrated claim) may be applied to the bank's unassessed claim only if this claim ranks pari passu or senior to the specific rated debt in all respects and the maturity of the unassessed claim is not later than the maturity of the rated claim, except where the rated claim is a short term obligation. If not, the rating applicable to the specific debt cannot be used and the unassessed claim will receive the risk weight for unrated claims.

(ii) If either the issuer or single issue has been assigned a rating which maps into a risk weight equal to or higher than that which applies to unrated claims, a claim on the same counterparty, which is unrated by any chosen credit rating agency, will be assigned the same risk weight as is applicable to the rated exposure, if this claim ranks pari-passu or junior to the rated exposure in all respects.

2. Quantitative Disclosures

Amount of exposure (after risk mitigation) outstanding as on 31st December 2013 under major three risk buckets

Description of risk bucket	Rs in Million
Below 100% Risk Weight	280,361.23
Risk Weight at 100%	139,189.65
More than 100% Risk Weight	15,975.11