# Disclosure under Basel III norms as on 31st December 2015

## 1: Scope of Application

The South Indian Bank Limited is a commercial bank, which was incorporated on January 25, 1929 in Thrissur, Kerala. The Bank does not have any subsidiary/Associate companies under its Management.

## 2: Capital Adequacy

### I. Qualitative Disclosure

**RBI Guidelines on capital adequacy**

The Bank is subject to the capital adequacy guidelines stipulated by RBI, which are based on the framework of the Basel Committee on Banking Supervision. As per Basel III guidelines, the Bank is required to maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9% {11.5% including Capital Conservation Buffer (CCB)}, with minimum Common Equity Tier I (CET1) of 5.5% (8% including CCB) as on 31st March 2019. These guidelines on Basel III are to be implemented beginning 1st April 2013 in a phased manner, the minimum capital required to be maintained by the Bank for the year ended 31st March 2016 is 9.625% with minimum Common Equity Tier 1 (CET1) of 5.5%.

**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, computation of 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.

**Quantitative Disclosure**

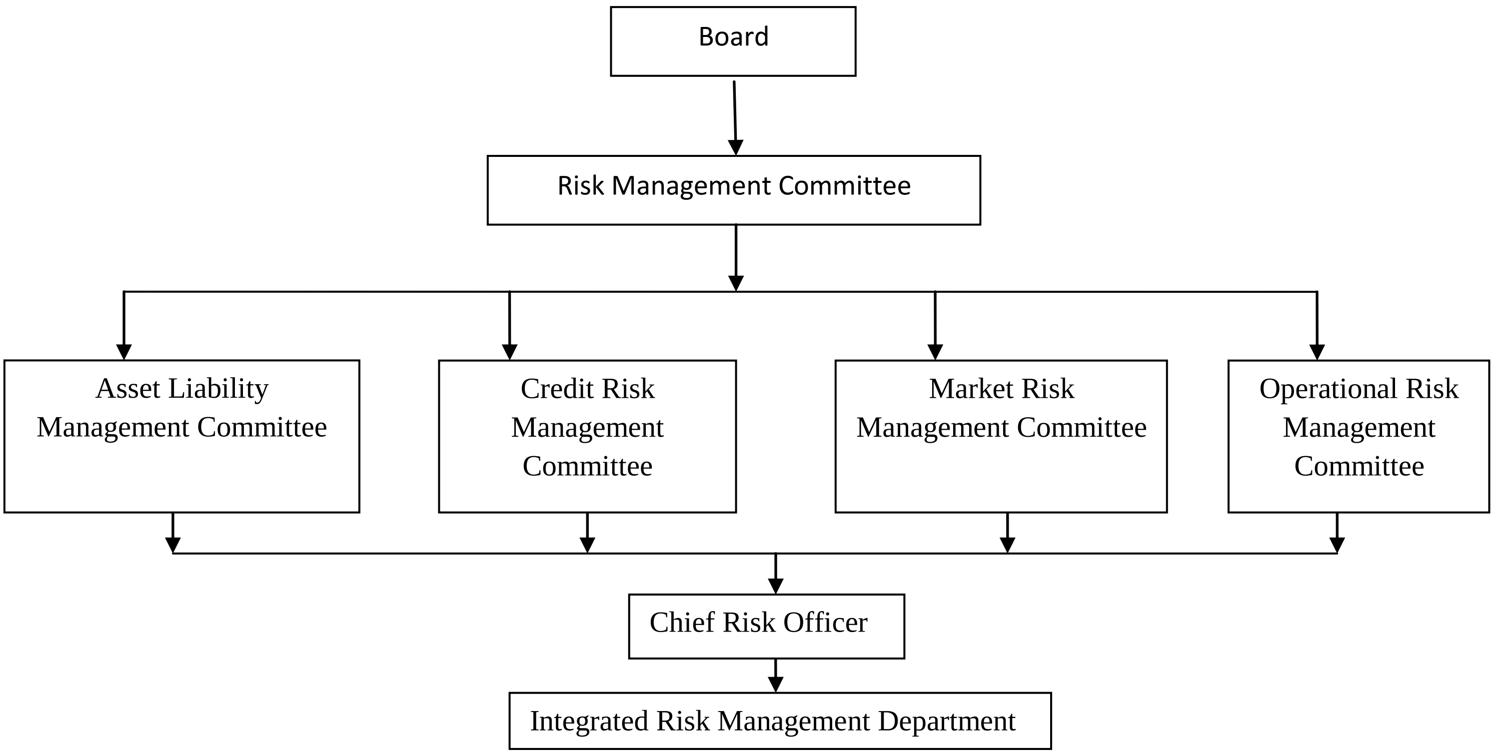
| | Particulars | Amount in Rs Million |
|---|---|---|
| (a) | Capital requirements for Credit Risk | 26,974.45 |
| | Portfolios subject to standardized approach | 26,974.45 |
| | Securitization exposures | 0.00 |
| (b) | Capital requirements for Market Risk (Standardised Duration | 1,249.94 |

| | | |
|---|---|---|
| | Approach) | |
| | Interest Rate Risk | 871.39 |
| | Foreign Exchange Risk (including gold) | 40.50 |
| | Equity Risk | ·338.05 |
| (c) | Capital requirements for Operational Risk (Basic Indicator Approach) | 2,951.30 |
| | Total Capital Requirement at 9%{ (a)+ (b)+(c) } | 31,175.79 |
| | Total Capital Fund | 40,513.51 |
| | Common Equity Tier- I CRAR % | 9.42% |
| | Tier- I CRAR % | 9.42% |
| | Total CRAR % | 11.70% |

**Risk Management: Objectives and Organisation Structure**

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 trade off 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 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:


Board
Risk Management Committee
Asset Liability Management Committee
Credit Risk Management Committee
Market Risk Management Committee
Operational Risk Management Committee
Chief Risk Officer
Integrated Risk Management Department

## 3. Credit Risk: General Disclosures

### I. 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.2/21.04.048/2015-16 dated July 1, 2015, 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), (out of order - An account is treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts are treated as "out of order".)

iii. the bill remains overdue for a period of more than 90 days in the case of bills Purchased and discounted, (overdue - Any amount due to the bank under any credit facility is "overdue" if it is not paid on the due date fixed by the bank.)

iv. The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops, (overdue - Any amount due to the bank under any credit facility is "overdue" if it is not paid on the due date fixed by the bank.)

v. The installment of principal or interest thereon remains overdue for one crop season for long duration crops, (overdue - Any amount due to the bank under any credit facility is

   a. 'Overdue' if it is not paid on the due date fixed by the bank.)

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.

## II. Quantitative Disclosure

### a) Gross Credit Risk Exposures as on 31st December 2015

**Amount in Rs Million**

| Category | Exposure |
|---|---|
| Fund Based [1] | 4,03,176.74 |
| Non Fund Based [2] | 28,674.42 |
| **Total** | 4,31,851.16 |

**Note :**

1. Fund based credit exposure excludes Cash in hand, Balance with RBI, SLR investments, shares, deposits placed NABARD, SIDBI & NHB, Fixed and Other assets.

2. Non-fund based exposure includes outstanding Letter of Credit, Acceptances, Bank Guarantee exposures and Forward Contracts. The value of forward contracts is arrived based on Current Exposure Method (CEM).

b) Geographic Distribution of Credit Risk Exposure as on 31st December 2015

| Particulars | Amount in Million |
|---|---|
| Domestic | 4,31,851.16 |
| Overseas | Nil |
| **Total** | 4,31,851.16 |

### c) Industry-Wise Distribution of gross advances and NPAs as on 31st December 2015

**Amount in Rs Million**

| Industry Name | Gross Advance | GNPA | Standard Advance |
|---|---|---|---|
| A.Mining and Quarrying | 1777.77 | 5.60 | 1783.37 |
| B.Food Processing | 2917.23 | 562.76 | 3479.99 |
| C. Beverages(Exluding Tea & Coffee)and Tobacco | 2001.41 | 139.09 | 2140.50 |
| D.Textiles | 15774.94 | 697.49 | 16472.43 |

| | | | |
|---|---|---|---|
| E.Leather and Leather products | 1236.42 | 0.07 | 1236.49 |
| F. Wood and Wood Products | 1160.41 | 62.78 | 1223.19 |
| G. Paper and Paper Products | 2936.27 | 95.73 | 3032.00 |
| H.Petroleum(non-infra),Coal Products(non-mining)and Nuclear Fuels | 1279.25 | 122.13 | 1401.38 |
| I.Chemicals and Chemical Products(Dyes,Paints, etc) | 3317.27 | 1188.24 | 4505.51 |
| J.Rubber,Plastic and their Products | 7776.85 | 34.74 | 7811.59 |
| K. Glass and Glassware | 61.83 | 0.02 | 61.85 |
| L. Cement and Cement Products | 6469.16 | 2.93 | 6472.09 |
| M.Basic Metal and Metal products | 17141.76 | 920.51 | 18062.27 |
| N.All Engineering | 3357.53 | 8.76 | 3366.29 |
| O. Vehicles,Vehicle Prts and Transport Equipments | 6531.80 | 1.71 | 6533.51 |
| P. Gems and Jwellery | 7157.78 | 2727.97 | 9885.75 |
| Q.Construction | 7512.33 | 164.71 | 7677.04 |
| R.Infrastructure | 47907.15 | 1253.51 | 49160.66 |
| S.Other Industries | 4875.62 | 156.68 | 5032.30 |

**d) Residual Contractual Maturity breakdown of Assets as on 31st December 2015**

**Amount in Rs Million**

| Time band | Cash and Balance with RBI | Balance with Banks | Investments | Loans & Advances | Fixed Asset | Other Assets |
|---|---|---|---|---|---|---|
| Next Day | 3,441.46 | 64.99 | 20,471.36 | 3,815.68 | - | 11.6 |
| 2-7 Day | - | 24.13 | 1,186.78 | 3,901.11 | - | 48.88 |
| 8-14 Day | - | 9.37 | 1,665.78 | 4,576.61 | - | 60.48 |
| 15-28 Day | 886.59 | 30.66 | 2,973.51 | 10,143.8 | - | 79.78 |
| 29-3 Months | 2,571.11 | 89.71 | 10,718.89 | 65,340.22 | - | 310.16 |
| 3-6 Months | 1,899.47 | - | 6,261.13 | 53,588.18 | - | 388.03 |
| 6-12 Months | 3,198.79 | - | 14,216.21 | 1,09,969.89 | - | 740.73 |
| 1-3 year | 1,533.36 | - | 14,560.11 | 54,566.03 | - | 1,598.48 |
| 3-5 year | 1,790.3 | - | 9,987.58 | 31,567.51 | - | 63.35 |
| over 5 Year | 8,348.58 | - | 50,548.92 | 61,619.05 | 4,854.19 | 698.29 |
| **TOTAL** | **23,669.66** | **218.86** | **1,32,590.25** | **3,99,088.07** | **4,854.19** | **3,999.77** |

e) **The composition of Gross NPAs and NPIs, Net NPAs, NPA ratios and provision for GNPAs and GNPIs as on 31st December 2015 and movement of gross NPAs and provisions during the quarter ended 31st December 2015 are given in following table.**

(Rs in Million)

| | | |
|---|---|---|
| 1. | Amount of Gross NPAs | 11,080.13 |
| | • Substandard | 6,209.23 |
| | • Doubtful-I | 1,059.08 |
| | • Doubtful-2 | 3,382.21 |
| | • Doubtful-3 | 46.82 |
| | • Loss | 382.79 |
| 2. | Net NPA | 7,159.83 |
| 3. | NPA ratios | |
| | • Gross NPA to Gross Advance: | 2.75% |
| | • Net NPA to Net Advance: | 1.80% |
| 4. | Movement of N PA (Gross) | |
| | • Opening Gross NPA | 8,922.52 |
| | • Additions to Gross NPA | 3,667.95 |
| | • Reductions to Gross NPA | 1,510.34 |
| | • Closing Balance of Gross NPA | 11,080.13 |
| 5. | Movement of N PA Provisions | |
| | • Opening balance of NPA Provisions held | 3,180.26 |
| | • Provisions made during the period | 900.77 |
| | • Deductions during the period | 393.10 |
| | • Closing Balance of NPA Provisions | 3,687.93 |
| 6. | Amount of Non Performing Investments (Gross) | 384.47 |
| 7. | Amount of Provisions held NP Investments | 200.53 |
| 8. | Movement of Provisions for Depreciation on Investments | |
| | • Opening Balance of Provisions for Depreciation | 379.63 |
| | • Provisions made during the period | 122.09 |
| | • Write-offs / Write-back of excess provisions during the period | |
| | • Closing Balance of Provisions for Depreciation | 501.72 |

## 4: Credit Risk: Disclosure for Portfolios under Standardized Approach

### I. 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
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 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 un-assessed claim only if this claim ranks pari passu or senior to the specific rated debt in all respects and the maturity of the un-assessed 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 un-assessed 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.

## II. Quantitative Disclosures

Amount of exposure (after risk mitigation) outstanding as on 31st December 2015 under major three risk buckets

| Description of risk bucket | Rs in Million |
|---|---:|
| Below 100% Risk Weight | 3,50,919.34 |
| Risk Weight at 100% | 1,56,590.32 |
| More than 100% Risk Weight | 37,278.99 |
| Deducted if any | |

*(Amount of exposures includes cash in hand, balance with RBI, investments, loans and advances, Fixed and other assets, off balance sheet items and forward contracts)*

**Leverage Ratio:**

Leverage ratio is a non-risk based measure of exposure over 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.

$$\text{Leverage Ratio} = \frac{\text{Capital Measure (Tier I Capital)}}{\text{Exposure Measure}}$$

(Rs in Millions)

| | |
|---|---|
| Tier I Capital | 32,619.75 |
| Exposure Measure | 6,26,500.59 |
| Leverage Ratio | 5.21% |