

PILLAR III DISCLOSURE REQUIREMENTS

1. Scope of Application and Capital Adequacy

TABLE DF 2- CAPITAL ADEQUACY

Qualitative disclosures: Basel- III guidelines issued by RBI

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. 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.

Basel III Capital regulations continue to be based on three-mutually reinforcing pillars viz, minimum capital requirements, supervisory review of capital adequacy and market discipline of the Basel II capital adequacy framework. The circular also prescribes the risk weights for the balance sheet assets, non-funded items and other off-balance sheet exposures and the minimum capital funds to be maintained as ratio to the aggregate of the risk weighted assets and other exposures, as also, capital requirements in the trading book, on an ongoing basis and operational risk. The Basel-III norms mainly seek to:

- a) Raise the quality of capital to ensure that the Banks are capable to absorb losses 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, viz., capital conservation buffer and countercyclical buffer. Both the buffers are intended to protect the banking sector from stressed situations and business cycles. The Capital Conservation Buffer requirements would start from March 31, 2015 and are to be fully implemented by March 31, 2018.

a. Summary

(i) Tier I Capital : *Tier I capital of the Bank includes*

- Equity Share Capital
- Reserves & Surpluses comprising of
 - ✓ Statutory Reserves,
 - ✓ Capital Reserves,
 - ✓ Share Premium and
 - ✓ Balance in P&L account

(a) Common Equity Tier I

The Bank has authorized share capital of Rs.200 crore comprising 20 crore equity share of Rs.10/- each. As on 31st December 2013, the Bank has issued, subscribed and paid-up capital of Rs.108.36 crore, constituting 10,83,59619 shares of Rs. 10/- each. The Bank's shares are listed on the National Stock Exchange of India Limited (NSE), the Bombay Stock Exchange Limited (BSE) and Cochin Stock Exchange (CSE).

(b) Additional Tier I Capital

As on December 31, 2013 the Bank does not have Additional Tier I Capital.

(ii) Tier 2 Capital includes Revaluation Reserve, Special Reserves, Standard Asset Provisions and Tier II Bonds.

Debt Capital Instruments:

The Bank has been raising capital funds by means of issuance of Upper Tier 2 and Subordinated bonds. The details of Upper Tier 2 and Subordinated Debt (Unsecured Redeemable Non-convertible Subordinated Bonds in the nature of Promissory Notes/Debentures), issued by the Bank and outstanding as on December 31, 2013 are given below. As these Bonds are not fully compliant with the eligibility criteria set under Basel III Capital Regulations, these are phased out and considered in computation of Tier 2 Capital under the transitional provisions.

Series	Coupon (%)	Date of Allotment	Maturity Date	Amount of Issue- Rs. in Crores
Series VIII	Payable annually @ 10.30%	30.09.2009	30.04.2015	150.00
Upper Tier II Series I	Payable annually @ 10% for the first 10 years	28.07.2010	30.07.2025	27.50
Series IX	Payable annually @ 11%	20.01.2012	20.07.2018	10.00
Series X- A	Payable half yearly @ 11.90%	29.05.2012	29.04.2018	54.50
Series X- B	Payable half yearly @ 11.95%	29.05.2012	29.05.2019	14.20

Series	Coupon (%)	Date of Allotment	Maturity Date	Amount of Issue- Rs. in Crores
Series XI-A	Payable half yearly @ 11.90%	03.08.2012	03.05.2018	29.30
Series XI-B	Payable half yearly @ 11.95%	03.08.2012	03.08.2019	3.70
Series XIII-B	Payable half yearly @ 11.95%	10.12.2012	10.12.2019	5.00
Series XIV-A	Payable half yearly @ 11.90%	24.01.2013	24.10.2018	1.00

Of this Rs.54.75 crore is eligible for Tier 2 Capital.

Quantitative Disclosures:

Risk exposure and assessment

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. Capital requirement for current business levels and framework for assessing capital requirement for future business levels has been made. Capital need and capital optimization are monitored periodically by the Committee of Top Executives. The Top Executives deliberate on various options available for capital augmentation in tune with business growth.

Composition of Capital as on 31.12.2013

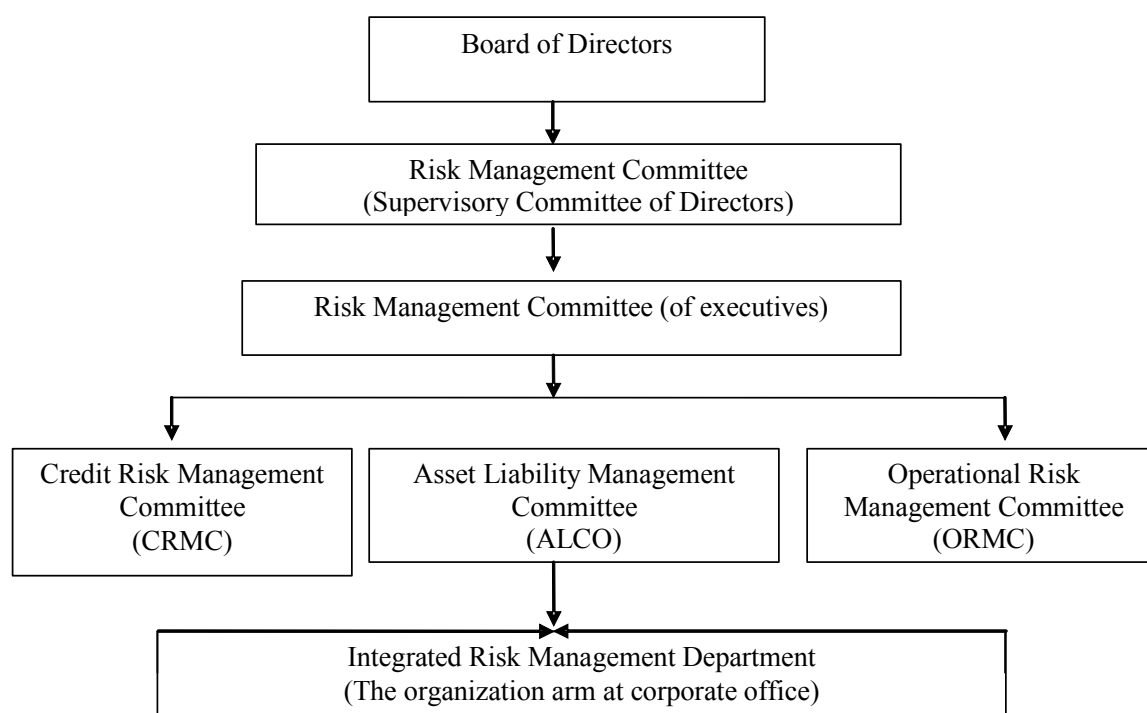
Items	Rs. in Crore
Paid-up share capital	131.69
Reserves	835.70
Common Equity Tier 1 Capital before deductions	967.39
Less amounts deducted from Tier I capital, including unamortized pension fund expenditure.	(329.46)
(a) Common Equity Tier 1 Capital	637.93
(b) Additional Tier-I Capital	0.00
(c) Total Tier-I Capital (a+b)	637.93
Directly issued Tier II capital instruments subject to phase out	54.75
General Provisions /Revaluation Reserves	44.36
(d) Total Tier-2 Capital	99.11
Total Eligible capital (c+ d)	737.04

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. The Capital requirements for Credit Risk; Capital requirements for Market Risk; Capital requirements for Operational Risk and the Common Equity Tier 1, Tier 2 and Total Capital Ratios are given below: -

Rs.in Crores

Items	31.12.2013
(b) Capital requirements for credit risk	574.41
Portfolios subject to standardized approach	574.41
Securitization exposures	0
(c) Capital requirements for market risk Standardized duration approach	44.71
Interest rate risk	39.38
Foreign exchange risk(including gold)	3.25
Equity position risk	2.08
(d) Capital requirements for operational risk	59.45
Basic Indicator Approach	59.45
(e) Common Equity Tier 1, Tier 2 and Total Capital Ratios	
Common Equity Tier 1 CRAR (%)	8.47%
Tier 2 CRAR (%)	1.31%
• Total CRAR % for the Bank	9.78%

Structure and Organization of the Risk Management function in the Bank



Scope and Nature of Risk Reporting and/or Measurement Systems

The Bank has adopted an integrated approach for the management of risk. The Bank's Integrated Risk Management Department (IRMD) is the organizational arm for risk management functions. The Bank has developed a comprehensive risk rating system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. Major initiatives of IRMD are -

- ✓ Risk rating system is drawn up in a structured manner incorporating the parameters from the five main risk areas 1) Financial Risk, 2) Industry/Market Risk, 3) Business Risk, 4) Management Risk, and 5) Facility risk
- ✓ Risk rating system is made applicable for loan accounts with total limits of Rs.2 lakhs and above.
- ✓ Different rating models are used for different types of exposures, for eg; Traders, SME, NBFC, Corporate, small loans, retail loans etc.
- ✓ IRMD validates the ratings of all exposures of Rs.25 lakhs and above.
- ✓ An independent analysis is carried out of the various risks attached to the credit proposals including industry analysis.
- ✓ Carries out rating migration analysis of the credit exposures of Rs.5 crores & above on a quarterly basis. Rating Migration analysis covering all exposures of Rs.25 lacs and above is conducted on an annual basis.
- ✓ Evaluates the asset quality by tracking the delinquencies and migration of borrower from one rating scale to another in various industry, business segment etc.

Credit facilities are sanctioned at various levels in accordance with the delegation approved by the Board. The Bank has in place the following hierarchical functionaries with powers delegated for credit sanction and administration:

- Branch Head with Branch Operational Manager jointly,
- Regional Credit Committee
- Zonal Credit Committee
- Corporate Credit Committee at Corporate Office level
- Committee of Directors
- Board of Directors

Head Integrated Risk Management Department is a member of the CCC. The Bank has implemented a software solution to get system support for calculation of Risk Weighted Assets for CRAR computation.

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants

The Bank has put in place a Board approved policy on Credit Risk Mitigation Techniques and Collateral Management, covering the credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes. Apart from the Basel defined collateral, the Bank ensures securities by way of inventories, Book Debts, plant & machineries, Land& Buildings and other moveable/immovable assets/properties. The Bank also accepts personal/corporate guarantee as an additional comfort for credit risk mitigation. The securities are subjected to proper valuation as prescribed in the Credit Policy of the Bank.

Bank has laid down detailed guidelines on documentation to ensure legal certainty of Bank's charge on collaterals. In order to ensure that documents are properly executed, the function has been brought under the purview of Credit Officers. The Credit Officers at branches ensure documentation, ground level follow up, collection of feedback, closer monitoring of accounts, quality of asset portfolios, statistical analyses, reporting of irregularities, providing guidelines, compliance with policy prescriptions and adherence to terms of sanction.

The Bank has an exclusive set up for credit monitoring functions in order to have greater thrust on post sanction monitoring of loans and strengthen administering the various tools available under the Bank's policies on loan review mechanism. For effective loan review, the Bank has the following in place: -

- On site monitoring tools like Inspection of assets/ books/stock of the borrower, stock audit, operations in the account, payment of statutory dues etc.
- Recording of loan sanctioned by each sanctioning authority by the next higher authority.
- Off site monitoring tools like Financial Follow Up Reports, verification of various statutory returns, Audit Reports etc.

TABLE DF 3 –CREDIT RISK: GENERAL DISCLOSURES

Qualitative disclosures:

(a) General: -

Definitions of past due and impaired (for accounting purposes)

The Bank has adopted the definition of the past due and impaired (for accounting purposes) as defined by the Regulator for income recognition and asset classification norms which is furnished below:-

1. Non performing Assets

An asset, including a leased asset, becomes non performing when it ceases to generate income for the Bank. A non performing asset (NPA) is a loan or an advance where;

- a) interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- b) the account remains 'out of order' as indicated at paragraph 2 below, in respect of an Overdraft/Cash Credit (OD/CC),
- c) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- d) the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- e) the installment of principal or interest thereon remains overdue for one crop season for long duration crops,

An account is classified as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

2. 'Out of Order' status: 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'.

3. '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.

Strategies and Processes for Credit Risk Management

Credit Risk Management Committee (CRMC) headed by MD & CEO is the top level functional committee for Credit Risk. The Committee considers and takes decisions necessary to manage and control credit risk within overall quantitative prudential limit set up by Board. The committee is entrusted with the job of approval of policies on standards for presentation of credit proposal, fine-tuning required in various rating models based on feedbacks or change in market scenario, approval of any other action necessary to comply with requirements set forth in Credit Risk Management Policy/ RBI guidelines or otherwise required for managing credit risk.

The Bank's strategies to manage the credit risks in its lending operations are as under:

- a) The Bank has a Comprehensive Board Approved Credit Risk Management Policy which is reviewed and revised annually. In addition to the above, various strategies with regard to Credit Risk Management are covered under Banks Credit Policy, Credit Monitoring Policy and Recovery Policy which are periodically reviewed by the Board.
- b) Defined segment exposures delineated into Retail, SME and Corporates;
- c) Industry wise exposure caps on aggregate lending by Bank
- d) Individual borrower wise caps on lending as well as borrower group wise lending caps linked as a percentage to the Bank's capital funds in line with RBI guidelines.
- e) Credit rating of borrowers and allowing credit exposures only to defined thresholds of risk levels
- f) A well defined approach to sourcing and preliminary due diligence while sourcing fresh credit accounts
- g) A clear and well defined delegation of authority within the Bank in regard to decision making linking exposure, rating and transaction risks.
- h) Regular review of all credit structures and caps, continuously strengthening credit processes, and monitoring oversight which are regularly reviewed and duly approved by the Board of the Bank.
- i) Credit Risk Management Cell is validating the rating assigned to all individual credit exposures of Rs 25 Lakh and above.
- j) Bank has an ever improving procedures and structures with respect to Credit Approval Process, Credit Rating, Prudential Limits, Documentation, Credit Monitoring and Review Mechanism.
- k) Credit Audit System by Inspection & Audit department has been put in place where the scope has been enhanced to cover exposure of Rs.3 cores and above on select basis (for exposure of Rs.5 crore and above, credit audit is compulsory).

- l) Legal Audit is being conducted for all the advances Rs.1 Crore and above, backed by mortgage of properties, once in a year.
- m) The review of accounts is usually done once a year. But in case of deterioration of the quality of advance the frequency of review is shortened to half yearly or quarterly as per the case.
- n) The Credit Officers takes care of the security creation and account management
- o) Credit Policy & Monitoring Group takes care of the monitoring of the loan assets.
- p) Bank has started quarterly industry study which would provide necessary information to increase/hold/decrease exposure under various industries.

Quantitative disclosures:

(a) Total Gross credit exposures: (After accounting offsets in accordance with applicable accounting regime and without taking into account the effects of credit risk mitigation techniques e.g. Collateral and netting)

(Rs. In Crores)

Overall credit exposure		31.12.2013	TOTAL 31.12.2013
Fund Based	Loans & advances	7854.12	9386.19
	Cash, RBI and Banks	1154.29	
	Others(Fixed Assets & other Assets)	377.78	
Non Fund Based	LC, BG etc	317.40	1039.15
	Forward Contracts / Interest rate SWAPS	353.22	
	Others	368.53	
Investments (Banking Book only)	--	3060.37	3060.37
Total of Credit Risk exposure	--	13485.71	13485.71

(b) Geographic distribution of exposures:

In Crore

Exposures	31.12.2013		
	Fund based	Non Fund Based	TOTAL
Domestic operations	12446.56	1039.15	13485.71
Overseas operations	Bank has no overseas operations		

(c) Industry type distribution of exposures as on 31.12.2013:

Particulars	Fund	Non Fund	Total
	<i>(Rs. In Crores)</i>		
Coal			
Food Processing	204.76	5.35	210.11
Sugar	2.13	-	2.13
Vegetable Oils and Vanaspati	0.88	-	0.88
Textile/ Apparels/ Garments	192.14	1.52	193.66
Paper & Paper Products	11.70	0.79	12.49
Chemicals and Chemical Products	170.51	44.75	215.27
<i>Of Which Drugs and Pharmaceuticals</i>	129.64	44.25	173.89
<i>Of Which Others</i>	40.87	0.51	41.38
Rubber & Rubber Products	49.93	0.62	50.55
Cement	13.88	1.20	15.08
Metal & Metal Products	114.33	0.95	115.28
All Engineering	205.82	12.64	218.46
Automobile	198.16	5.79	203.95
Gems & Jewellery	481.48	2.16	483.64
Construction	274.94	12.70	287.63
Infrastructure	518.22	73.16	591.38
<i>Of Which Power</i>	61.25	25.76	87.01
<i>Of Which Telecommunication</i>	99.29	-	99.29
<i>Of Which Roads</i>	87.94	-	87.94
<i>Of Which Railways</i>	17.64	-	17.64
<i>Of Which Others</i>	252.10	47.39	299.49
NBFC	543.64	4.14	547.78
Trading	162.00	12.43	174.43
Capital Market	15.48	0.10	15.58
Real Estate	945.11	1.03	946.14
<i>Of which residential real estate</i>	270.06	-	270.06
<i>Of which commercial real estate</i>	182.55	1.03	183.58
<i>Of which other direct exposure</i>	492.50	-	492.50
Computer Software	148.31	22.71	171.02
<i>Other Industries</i>	485.94	19.20	505.14
Residuary Other Advances	3,009.81	96.17	3,105.98
Total	7,749.19	317.40	8,066.59

(d) Residual maturity breakdown of assets:

(Rs.in crore)

Maturity Pattern Assets	Advances	Investments	Foreign Currency
	31.12.2013	31.12.2013	31.12.2013
Day 1	52.56	0.00	197.81
2 to 7 Days	122.10	0.00	37.76
8 to 14 days	97.00	0.06	3.58
15 to 28 days	84.82	0.00	2.59

29 days up to 3 months	533.82	4.68	55.46
Over 3 months and up to 6 months	506.61	171.18	44.56
Over 6 months and up to 1 year	1249.97	61.64	54.22
Over 1 year and up to 3 years	2958.91	243.78	0.00
Over 3 years and up to 5 years	853.88	611.07	0.00
Over 5 years	1093.42	3301.88	0.00
Total	7553.11	4394.29	395.99

(e) Non-performing assets:

No	Items	Amount in Rs. crore
		31.12.2013
1	Gross NPAs	546.32
1.1	Substandard	262.27
1.2	Doubtful 1	188.23
1.3	Doubtful 2	19.73
1.4	Doubtful 3	9.00
1.5	Loss	67.09
2	Net NPAs	350.23
3	NPA Ratios	
3.1	Gross NPAs to Gross Advances (%)	7.05%
3.2	Net NPAs to Net Advances (%)	4.64%
4	Movement of NPAs (gross)	
4.1	Opening balance	426.80
4.2	Additions	151.47
4.3	Reductions	31.95
4.4	Closing balance	546.32
5	Movement of provisions for NPAs	
5.1	Opening balance	134.75
5.2	Provisions made during the quarter	65.85
5.3	Write-off	0.00
5.4	Write back of excess provisions	5.35
5.5	Closing balance	195.25
6	Amount of non-performing investments	6.97
7	Amount of provisions held for non –performing investments	11.97
8	Movement of Provisions held for NPIs	
8.1	Opening balance	6.97
8.2	Provisions made during the period	5.00
8.3	Write-off/ Write back of excess provisions	0.00
8.4	Closing balance	11.97

Table DF 5- Disclosures for portfolios subject to the standardized approach

Qualitative disclosures:

(a) For Portfolios under the standardized approach

1	Names of credit rating agencies used	Bank has approved all the external credit rating agencies accredited by RBI for the purpose of credit risk rating of domestic borrowal accounts, ie, CRISIL, CARE, India Ratings& Research Pvt. Ltd., ICRA, BrickWork Ratings, SMERA and International Credit rating agencies, i.e, Standard and Poor, Moody's and FITCH.
2	Changes if any, since prior period disclosure in the identified rating agencies and reasons for the same.	No change
3	Types of exposure for which each agency is used	<p>The external rating assigned by an agency is considered only if it fully takes into account the credit exposure of the Bank.</p> <p>All the above identified Rating Agency rating are used for various types of exposures as follows :</p> <p>(i) For Exposure with a contractual maturity of less than or equal to one year (except Cash Credit , Overdraft and other Revolving Credits) , Short -Term Rating given by ECAIs will be applicable</p> <p>(ii) For Domestic Cash Credit , Overdrafts and other Revolving Credits (irrespective of the period) and / or Term Loan exposures of over one year, Long Term Rating will be applicable.</p> <p>(iii) For Overseas exposures, irrespective of the contractual maturity, Long Term Rating given by IRAs will be applicable.</p> <p>(iv) Rating by the agencies is used for both fund based and non-fund based exposures.</p> <p>(iv) Rating assigned to one particular entity within a corporate group cannot be used to risk weight other entities within the same group.</p>
4	Description of the process used to transfer public issue rating on to comparable assets in the Banking book.	<p>Long –term Issue Specific (our own exposures or other issuance of debt by the same borrower-constituent/counterparty) Ratings or Issuer(borrower-constituent/counterparty) Ratings can be applied to other unrated exposures of the same borrower-constituent/counterparty in the following cases :</p> <p>(i) If the Issue Specific Rating or Issuer Rating maps to Risk Weight equal to or higher than the unrated exposures ,</p>

	any other unrated exposure on the same counter-party will be assigned the same Risk Weight , if the exposure ranks paripassu or junior to the rated exposure in all aspects
	(ii) In cases where the borrower-constituent/counter-party has issued a debt (which is not a borrowing from our Bank), the rating given to that debt may be applied to Bank's unrated exposures if the Bank's exposure ranks pari-passu or senior to the specific rated debt in all respects and the maturity of unrated Bank's exposure is not later than Maturity of rated debt.

Quantitative disclosures

Amount of Bank's outstandings (rated & unrated) in major risk buckets- under standardized approach after factoring risk mitigants (i.e., collaterals):

Particulars	31.12.2013 - Rs. in Crores
Below 100% risk weight	6969.58
100% risk weight	3488.34
More than 100% risk weight	765.87
Total Exposure	11223.80