केनरा बैंक Canara Bank

Basel III Pillar 3 Disclosure

Table DF – 2: Capital Adequacy

(i) Qualitative Disclosures

The Bank has put in place a robust Risk Management Architecture with due focus on Capital optimization and on profit maximization, i.e. to do maximum business out of the available capital which in turn maximize profit or return on equity. Bank is benchmarking on globally accepted sound risk management system, conforming to Basel III framework, enabling a more efficient equitable and prudent allocation of resources.

In Capital Planning process the bank reviews:

- Current capital requirement of the Bank
- The targeted and sustainable capital in terms of business strategy and risk appetite.

Capital need and capital optimization are monitored periodically by the Capital Planning Committee comprising Top Executives. Capital requirement is projected quarterly considering the expected growth in advances, investments and investments in Subsidiaries/ joint Ventures etc. Committee takes into consideration various options available for capital augmentation in tune with business growth and realignment of Capital structure duly undertaking the scenario analysis for capital optimization.

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(ii) **Quantitative disclosures**

Sl No	Items	Amount (` in Crores) 31.12.2013
(b)	**Capital requirements for Credit Risk**	
	• Portfolios subject to Standardized Approach	22914.45
	• Securitization Exposures	141.71
(c)	**Capital requirements for Market Risk**	
	• Standardized Duration Approach	
	- Interest Rate Risk	1354.85
	- Foreign Exchange Risk (including Gold)	80.87
	- Equity Risk	381.78
(d)	**Capital requirements for Operational Risk**	
	• Basic Indicator Approach	1553.57
(e)	**Common Equity Tier 1, tier 1 and Total Capital ratios:**	
	• Group CRAR	
	- CET 1 Ratio	7.18%
	- Tier 1 Ratio	7.55%
	- Tier 2 Ratio	2.37%
	- CRAR	9.92%
	• Stand alone (Parent Bank) CRAR	
	- CET 1 Ratio	7.13%
	- Tier 1 Ratio	7.48%
	- Tier 2 Ratio	2.35%
	- CRAR	9.83%

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Table DF- 3: Credit Risk

(i) Qualitative Disclosures

The Bank’s policies assume moderate risk appetite and healthy balance between risk and return. The primary risk management goals are to maximize value for share holders within acceptable parameters and adequately addressing the requirements of regulatory authorities, depositors and other stakeholders. The guiding principles in risk management of the Bank comprise of Compliance with regulatory and legal requirements, achieving a balance between risk and return, ensuring independence of risk functions, and aligning risk management and business objectives. The Credit Risk Management process of the Bank is driven by a strong organizational culture and sound operating procedures, involving corporate values, attitudes, competencies, employment of business intelligence tools, internal control culture, effective internal reporting and contingency planning.

The overall objectives of Bank's Credit Risk Management are to:

- Ensure credit growth, both qualitatively and quantitatively that would be sectorally balanced, diversified with optimum dispersal of risk.
- Ensure adherence to regulatory prudential norms on exposures and portfolios.
- Adequately pricing various risks in the credit exposure.
- Form part of an integrated system of risk management encompassing identification, measurement, monitoring and control.

Strategies and processes:

In order to realize the above objectives of Credit Risk Management, the Bank prescribes various methods for Credit Risk identification, measurement, grading and aggregation techniques, monitoring and reporting, risk control / mitigation techniques and management of problem loans / credits. The Bank has also defined target markets, risk acceptance criteria, credit approval authorities, and guidelines on credit origination / maintenance procedures.

The strategies are framed keeping in view various measures for Credit Risk Mitigation, which includes identification of thrust areas and target markets, fixing of exposure ceiling based on regulatory guidelines and risk appetite of the Bank, minimizing concentration Risk, and pricing based on rating.

Bank from time to time would identify the potential and productive sectors for lending, based on the performance of the segments and demands of the economy. The Bank restricts its exposures in sectors which do not have growth potentials, based on the Bank’s evaluation of industries / sectors based on the prevailing economic scenario prospects etc.

The operational processes and systems of the Bank relating to credit are framed on sound Credit Risk Management Principles and are subjected to periodical review.

The Bank has comprehensive credit risk identification processes as part of due diligence on credit proposals.

The structure and organization of the Credit Risk Management Function: Credit Risk Management Structure in the Bank is as under-

- Board of Directors
- Risk Management Committee of the Board (RMC)
- Credit Risk Management Committee (CRMC)
- Model Review Technical Working Group (MRTWG)
- General Manager-Risk Management Wing, H.O (Chief Risk Management Officer)
- Deputy General Manager(I&II),Risk Management Wing
- Credit Risk Management Department, Risk Management Wing
- The Credit Risk Management Department comprises of Credit Policy Section, Credit Statistics Section and Credit Risk Management Section. The Credit Risk Management Section has three functional desks, the Credit Risk Management Desk, Credit Risk Rating Desk and Industry Research Desk.
- Risk Management & Credit Review Section at Circle Offices.

The scope and nature of risk reporting and / or measurement systems:

Bank has an appropriate credit risk measurement and monitoring processes. The measurement of risk is through a pre-sanction exercise of credit risk rating and scoring models put in place by the Bank. The Bank has a separate Risk Rating Policy for identifying the parameters under each of these risks as also assigning weighted scores thereto and rating them on a scale of I to VII. Grade VIII or High Risk Grade III is termed as default grade. The risk rating policy also entails the guidelines on usage/mapping of ratings assigned by the recognized ECAIs (External Credit Assessment Institutions) for assigning risk weights for the eligible credit exposures as per the guidelines of the RBI on standardized approach for capital computation and also for pricing purposes.

The Bank has adopted 'Standardized Approach' for entire credit portfolio for credit risk measurement. The bank is endeavoring to move towards IRB approaches and made all necessary efforts in this regard.

The Bank has embarked upon a software solution to get system support for establishing a robust credit data warehouse for all MIS requirements, computation of Risk Weighted Assets (RWA), generate various credit related reports for review of exposure and monitoring, and conducting analysis of credit portfolio from various angles.

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

Bank primarily relies on the borrower's financial strength and debt servicing capacity while approving credits. Bank does not excessively rely on collaterals or guarantees as a source of repayment or as a substitute for evaluating borrower's creditworthiness. The Bank does not deny credit facilities to those assessed as credit worthy for mere want of adequate collaterals.

In order to manage the Banks' credit risk exposure, the Bank has adopted credit appraisal and approval policies and procedures that are reviewed and updated by the Risk Management Wing at Head office in consultation with other functional wings. The credit appraisal and approval process is broadly divided into credit origination, appraisal, assessment and approval, and dispensation.

Corporate finance and project finance loans are typically secured by a first lien on fixed assets, normally consisting of property, plant and equipment. The Bank also takes security of pledge of financial assets like marketable securities and obtains corporate guarantees and personal guarantees wherever appropriate. Working Capital loans are typically secured by a first lien on current assets, which normally consist of inventory and receivables.

Bank has laid down detailed guidelines on documentation to ensure legal certainty of Bank's charge on collaterals.

The Bank's policy is to ensure portfolio diversification and evaluate overall exposure in a particular industry / sector in the light of forecasts of growth and profitability for that industry, and the risk appetite of the Bank. The Bank monitors exposures to major sectors of the economy and specifically exposure to various industries and sensitive sectors. Exposure to industrial activities is subjected to the credit exposure ceilings fixed by the Bank based on the analysis on performance of the industry. The Bank's exposures to single and group borrowers as also substantial exposure is fixed as per the risk rating of the borrowers and monitored periodically in order to keep the exposure level within the prudential ceiling norms advised by Reserve Bank of India from time to time.

The credit origination is through the grass root level ably assisted by the branch net work and Circle Offices. The process of identification, application is carried out before commencing an in depth appraisal, due diligence and assessment.

The credit approval process is a critical factor and commences with the mandatory credit risk rating of the borrower as a pre sanction exercise. The measurement of Credit Risk associated with the borrower evaluates indicative factors like; borrowers' financial position, cash flows, activity, current market trends, past trends, management capabilities, experience with associated business entities, nature of facilities etc. The credit sanctioning powers delegated to the various authorities based on internal risk rating categories of the borrower already put in place. In terms of the Ministry of Finance notifications, Bank has set up Credit Approval Committees at HO and circle levels. The credit sanctioning powers of all the sanctioning authorities at administrative units (i.e, besides branch powers) are withdrawn and the committee approach for credit approval has been put in place. The Bank has in place specialized branches viz. Centralized Processing Units (CPUs), Retail Asset Hubs (RAHs) and SME Sulabhs at select cities to ease credit dispensation turnaround time and ensure specialized attention.

To enhance the control measures , a separate Credit Monitoring and Administration Wing is in place to undertake exclusive loan review ,monitoring problem accounts, credit audit ,etc. This ensures greater thrust on post sanction monitoring of loans and strengthen administering the various tools available under the Banks' policies on loan review mechanism.

For effective loan review, the Bank has the following in place:

- Credit Audit System to identify, analyze instances of non-compliance and rectification.
- Review of loan sanctioned by each sanctioning authority by the next higher authority.
- Mid Term Review of borrowal accounts beyond a certain level of exposure.
- Monitoring of special watch accounts at various levels. Formation of Slippage Management Committee at HO / Circles to monitor the accounts with exposure of ₹ 1 Crore & above, among the list of accounts appearing in SWL
- Monitoring tools like Credit Monitoring Format (web-based), Quarterly Information Systems, Half Yearly Operation Systems, Stock Audits, Special Watch List Accounts, etc.
- Credit Monitoring Officers at branches in charge of monitoring functions.
- In order to strengthen pre-disbursement monitoring of compliance to sanction terms and conditions, obtention of stipulated collateral securities ensuring perfection of securities before disbursement etc, Pre-release Audit System has been introduced.

Loans Past due and Impaired: As per the prudential norms applied for income recognition, asset classification and provisioning, the Bank considers following categories of loans and advances as Non-performing Assets, wherein:

- Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan
- The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC). An account should be 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 should be treated as 'out of order'.
- The bill remains overdue for a period of more than 90 days in the case of Bills Purchased and Discounted.
- In case of agricultural advances, interest and/or installment of principal remains overdue for 2 crop seasons (in respect of short duration crops) & 1 crop season (in respect of long duration crops).
- Any amount receivable that remains overdue for a period of more than 90 days in respect of other accounts.
- Interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.

(ii) Quantitative Disclosures

(b) Total Gross Credit Risk Exposure

	Amount (` in crores)
Particulars	**31.12.2013**
Fund Based Exposures	**290491.25**
Non-fund Based Exposures	**216020.62**
Total Gross Credit Exposures	**506511.87**

(c) Geographic Distribution of Exposures:

Exposures	**Amount (` in crores)**	
	Fund Based Exposures	**Non-fund Based Exposures**
	31.12.2013	**31.12.2013**
Domestic operations	271970.06	203579.82
Overseas operations	18521.19	12440.80
Total	**290491.25**	**216020.62**

(d) Industry Type Distribution of Exposures (Global)

			(` in crores)
SL NO.	**INDUSTRY**	**Fund Based Outstanding**	**Non Fund Based Outstanding**
		31.12.2013	**31.12.2013**
1.1	**Mining and Quarrying**	**2775**	**345**
1.2	**Food Processing**	**6845**	**435**
	1.2.1 Sugar	1973	58
	1.2.2 Edible Oils and Vanaspati	319	123
	1.2.3 Tea	124	82
	1.2.4 Others	4429	172
1.3	**Beverage & Tobacco**	**728**	**19**
1.4	**Textiles**	**13368**	**1338**
	1.4.1 Cotton Textiles	5975	231
	1.4.2 Jute Textiles	139	32
	1.4.3 Other Textiles	7254	1075
1.5	**Leather & Leather Products**	**1115**	**52**
1.6	**Wood and Wood Products**	**576**	**130**
1.7	**Paper & Paper Products**	**2499**	**77**
1.8	**Petroleum, Coal Products and Nuclear Fuels**	**4745**	**3557**
1.9	**Chemicals and Chemical Products**	**4934**	**638**
	1.9.1 Fertilizer	328	93
	1.9.2 Drugs & Pharmaceuticals	1979	283
	1.9.3 Petro Chemicals	522	9
	1.9.4 Others	2105	253
1.10	**Rubber, Plastic & their Products**	**1981**	**172**
1.11	**Glass and Glassware**	**180**	**5**
1.12	**Cement and Cement Products**	**1490**	**39**
1.13	**Basic Metal and Metal Products**	**20752**	**3336**
	1.13.1 Iron and Steel	13789	2614
	1.13.2 Other Metal and Metal Products	6963	722
1.14	**All Engineering**	**7524**	**5473**
	1.14.1 Electronics	1085	1056
	1.14.2 Electricity	1972	1920
	1.14.3 Others	4467	2497

1.15	**Vehicles, Vehicle Parts and Transport Equipments**	**3229**	**428**
1.16	**Gems & Jewellery**	**1595**	**1227**
1.17	**Construction**	**5337**	**4025**
1.18	**Infrastructure**	**64760**	**3841**
	1.18.1 Power	42999	3347
	1.18.2 Telecommunications	8492	297
	1.18.3 Roads	7311	11
	1.18.4 Airports	1380	0
	1.18.5 Ports	1112	2
	1.18.6 Railways (other than Indian Railways)	1000	117
	1.18.7 Other Infrastructure	2465	67
1.19	**Other Industries**	**19639**	**852**
	INDUSTRY (Total of Small, Medium and Large Scale)	**164073**	**25990**

Credit Exposure of industries where outstanding exposure is more than 5% of the Total Gross Credit Exposure of the Bank is as follows:

Sl No	**Industry**	**Total Exposure (` . in Crores)**	**% of Total Gross Credit Exposure**
1	Power	46346	9.15%

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(e) Residual Contractual Maturity Breakdown of Assets

			`. in Crores
Maturity Pattern	**Advances**	**Investments**	**Foreign Currency Assets**
	31.12.2013	**31.12.2013**	**31.12.2013**
0 to 1 day	9022.01	0.00	553.67
2 to 7 days	12461.93	379.06	4983.07
8 to 14 days	10757.26	122.97	2307.30
15 to 28 days	12548.05	417.84	2743.34
29 days to 3 months	26383.80	4822.48	6829.89
Over 3 months & upto 6 months	21116.09	1512.95	4197.24
Over 6 months & upto 1 year	34927.99	727.60	6360.54
Over 1 year & upto 3 years	72919.21	11696.99	4128.02
Over 3 year & upto 5 years	28489.12	24390.65	2067.01
Over 5 years	59074.59	83175.04	2422.50
Without Maturity	0.00	3204.07	0.00
Total	**287700.05**	**130449.65**	**36592.58**

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(f) Amount of Non-Performing Assets (Gross)

Sl No	Items		Amount (` in crores) 31.12.2013
a)	**Gross NPAs**		**8192.13**
	▪	Sub-Standard	**5254.59**
	▪	Doubtful 1	**1801.13**
	▪	Doubtful 2	**1093.63**
	▪	Doubtful 3	**9.84**
	▪	Loss	**32.94**
b)	**Net NPAs**		**6927.38**
c)	**NPA Ratios**		
	▪	Gross NPAs to Gross Advances (%)	**1.62**
	▪	Net NPAs to Net Advances (%)	**2.41**
d)	**Movement of NPAs (gross)**		
	▪	Opening balance	**6355.80**
	▪	Additions	**6336.33**
	▪	Reductions	**4500.00**
	▪	Closing Balance	**8192.13**
e)	**Movement of Provisions for NPAs**		
	▪	Opening Balance	**1024.41**
	▪	Exchange Fluctuations & Others	**0.00**
	▪	Provisions made during the period	**555.23**
	▪	Write-off	**37.94**
	▪	write back of excess provisions	**314.00**
	▪	Closing Balance	**1227.70**
f)	**Amount of Non-Performing Investments**		**304.12**
g)	**Amount of Provisions held for Non-Performing Investments**		**252.87**
h)	**Movement of Provisions for Depreciation on Investments**		
	▪	Opening Balance	**212.80**
	▪	Provisions made during the period	**69.37**
	▪	Write-off	**17.23**
	▪	Write Back of excess Provisions	**4.61**
	▪	Closing Balance	**260.33**

Table DF- 4: Credit Risk: Disclosures for portfolios subject to the Standardized Approach

(i) Qualitative disclosures

(a) For portfolios under the Standardized Approach:

The Bank has recognized following credit rating agencies for the purpose of rating of an exposure & assigning risk weights for computation of capital charge under standardized approach.

Domestic credit rating agencies:

- Brickwork Ratings India Private Limited (Brickwork),
- Credit Analysis & Research Limited (CARE),
- CRISIL Limited,
- ICRA Limited,
- India Ratings (Formerly FITCH India)
- SMERA Ratings Limited

International Credit Rating Agencies:

- Standard & Poor,
- Moody's ,
- FITCH.

- **Types of exposure for which each agency is used:**

All the above agencies are recognized for rating all types of exposures.

- **A description of the process used to transfer public issue ratings onto comparable assets in the banking books:**

  - The Bank uses only publicly available solicited ratings that are valid and reviewed by the recognized External Credit Rating Agencies, referred as External Credit Assessment Institutions (ECAI).
  - Wherever available, the Bank uses Facility Rating or Bank Loan Rating for risk weighting the borrower's exposures. Where Issuer Rating is available, the Bank uses such ratings unless the bank loan is specifically rated.
  - The Bank does not simultaneously use the rating of one ECAI for one exposure and that of another ECAI for another exposure of the same borrower, unless the respective exposures are

rated by only one of the chosen ECAIs. Further, the Bank does not use rating assigned to a particular entity within a corporate group to risk weight other entities within the same group.

- Running limits such as Cash Credit are treated as long term exposures and accordingly, long term ratings are used for assigning risk weights for such exposures.
- While mapping/applying the ratings assigned by the ECAIs, the Bank is guided by regulatory guidelines/Bank's Board approved Policy.
- Where exposures/ borrowers have multiple ratings from the chosen ECAIs, the Bank has adopted the following procedure for risk weight calculations:
  - o If there are two ratings accorded by chosen ECAIs, which map into different risk weights, the higher risk weight is applied.
  - o If there are three or more ratings accorded by the chosen ECAIs which map into different risk weights, the ratings corresponding to the lowest 2 ratings are referred to and higher of those two risk weights is applied.

(ii) Quantitative Disclosures

(b) Amount of the Bank's Exposures- Gross Advances (Rated & Unrated) in Major Risk Buckets - under Standardized Approach, after factoring Risk Mitigants (i.e. Collaterals):

SL No	Particulars	Amount (` in crores)	
		FUND BASED	NON-FUND BASED
		31.12.2013	31.12.2013
1	Below 100% Risk Weight	305325.44	65801.86
2	100% Risk Weight	89968.68	44456.95
3	More than 100% Risk Weight	52614.04	25980.27
4	Deducted (Risk Mitigants)	34686.64	4024.88
5	TOTAL	**413221.52**	**132214.20**