केनरा बैंक Canara Bank

# Basel III Pillar 3 Disclosure

**Table DF – 1: Scope of Application**

**Name of the head of the banking group to which the framework applies: Canara Bank**

**(i) Qualitative Disclosures:**

**a. List of group entities considered for consolidation**

| Name of the entity / (Country of Incorporation) | Whether the entity is included under accounting scope of consolidation (Yes/No) | Explain the method of consolidation | Whether the entity is included under regulatory scope of consolidation (Yes/No) | Explain the method of consolidation | Explain the reasons for difference in method of consolidation | Explain the reasons if consolidated under only one of the scopes of consolidation |
|---|---|---|---|---|---|---|
| Canbank Financial Services Ltd ( India) | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | N.A | N.A |
| Canbank Venture Capital Fund Ltd (India) | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | N.A | N.A |
| Canbank Factors Ltd (India) | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | N.A | N.A |

| Name of the entity / (Country of Incorporation) | Whether the entity is included under accounting scope of consolidation (Yes/No) | Explain the method of consolidation | Whether the entity is included under regulatory scope of consolidation (Yes/No) | Explain the method of consolidation | Explain the reasons for difference in method of consolidation | Explain the reasons if consolidated under only one of the scopes of consolidation |
|---|---|---|---|---|---|---|
| Canara Robeco Asset Management Company Ltd., ( India) | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | N.A | N.A |
| Canbank Computer Services Ltd., ( India) | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | No | N.A | N.A | Non Financial Subsidiary |
| Canara Bank Securities Ltd ( India) | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | N.A | |
| Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd ( India) | Yes | As per Accounting Standard – 21 on Consolidated Financial Statements | No | N.A | N.A | Insurance Subsidiary |
| Commercial Bank of India LLC., Moscow, (Russia ) | Yes | As per Accounting Standard -27 on Financial Reporting of Interest in Joint Venture | No | N.A | N.A | Joint Venture |

| Name of the entity / (Country of Incorporation) | Whether the entity is included under accounting scope of consolidation (Yes/No) | Explain the method of consolidation | Whether the entity is included under regulatory scope of consolidation (Yes/No) | Explain the method of consolidation | Explain the reasons for difference in method of consolidation | Explain the reasons if consolidated under only one of the scopes of consolidation |
|---|---|---|---|---|---|---|
| Canfin Homes Ltd., ( India) | Yes | As per Accounting Standard -23 on Accounting for Investment in Associates in Consolidate Financial Statements | No | N.A | N.A | Associates |
| Pragathi Gramin Bank (India ) | Yes | As per Accounting Standard -23 on Accounting for Investment in Associates in Consolidate Financial Statements | No | N.A | N.A | Associates |
| Kerala Gramin Bank ( India) | Yes | As per Accounting Standard -23 on Accounting for Investment in Associates in Consolidate Financial Statements | No | N.A | N.A | Associates |

**b. List of group entities not considered for consolidation both under the accounting and regulatory scope of consolidation**

There are no entities in the group which are not considered for consolidation under both accounting scope of consolidation and regulatory scope of consolidation.

## (ii) Quantitative Disclosures:

**c. List of group entities considered for consolidation**

| Name of the entity / Country of Incorporation (as indicated in (a) above) | Principle activity of the entity | Total balance sheet equity as on 30th September, 2013 | Total balance sheet assets as on 30th September, 2013 |
|---|---|---|---|
| Canbank Venture Capital Fund Ltd (India) | Trustee and Manager of Canbank Venture Capital Fund | 2.50 Mn | 349.29 Mn |
| Canbank Factors Ltd (India) | Engaged in the business of Factoring | 200.00 Mn | 7024.38 Mn |
| Canara Robeco Asset Management Company Ltd., (India) | Manager of Canbank Mutual Fund | 498.54 Mn | 934.19 Mn |
| Canara Bank Securities Ltd ( India) | Business of Providing Stock Broking services to Institutional and retail Clients | 400.00 Mn | 1305.88 Mn |
| Canbank Financial Services Ltd (India) | Its net-worth is totally eroded and currently it is not engaged in any of the activities of a non-banking financial company | 300.00 Mn | 190.07 Mn |

**d. The aggregate amount of capital deficiencies in all subsidiaries which are not included in the regulatory scope of consolidation i.e. that are deducted:**

There is no capital deficiency in the subsidiaries of the Bank which are not included in the regulatory scope of consolidation as of September 30, 2013.

**e. The aggregate amounts (e.g. current book value) of the Bank's total interests in insurance entities, which are risk-weighted:**

| Name of the insurance entities / Country of Incorporation | Principle activity of the entity | Total balance sheet equity (as stated in the accounting balance sheet of the legal entity) | % of bank's holding in the total equity / proportion of voting power | Quantitative impact on regulatory capital of using risk weighting method versus using the full deduction method |
|---|---|---|---|---|
| Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd ( India) | Insurance Business | Rs 78228 Mn | 51% | |

**f. Any restrictions or impediments on transfer of funds or regulatory capital within the banking group:**

There is no restriction or impediments on transfer of funds or regulatory capital within the banking group.

**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.

### (ii) Quantitative disclosures

| Sl No | Items | Amount (` in Crores) 30.09.2013 |
|---|---|---|
| (b) | **Capital requirements for Credit Risk** | |
| | • Portfolios subject to Standardized Approach | 20715.49 |
| | • Securitization Exposures | 113.78 |
| (c) | **Capital requirements for Market Risk** | |
| | • Standardized Duration Approach | |
| | - Interest Rate Risk | 1117.56 |
| | - Foreign Exchange Risk (including Gold) | 42.93 |
| | - Equity Risk | 325.28 |
| (d) | **Capital requirements for Operational Risk** | |
| | • Basic Indicator Approach | 1546.35 |
| (e) | **Common Equity Tier 1, tier 1 and Total Capital ratios:** | |
| | • Group CRAR | |
| | - CET 1 Ratio | 8.20% |
| | - Tier 1 Ratio | 8.62% |
| | - Tier 2 Ratio | 2.12% |
| | - CRAR | 10.74% |
| | • Stand alone (Parent Bank) CRAR | |
| | - CET 1 Ratio | 8.13% |
| | - Tier 1 Ratio | 8.52% |
| | - Tier 2 Ratio | 2.10% |
| | - CRAR | 10.62% |

**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.
- Model Validation Team (MVT)
- Model Development Team
- 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** | **30.09.2013** |
| Fund Based Exposures | **283706.45** |
| Non-fund Based Exposures | **225753.98** |
| **Total Gross Credit Exposures** | **509460.43** |

**(c) Geographic Distribution of Exposures:**

| **Exposures** | **Amount (` in crores)** | |
|---|---|---|
| | **Fund Based Exposures** | **Non-fund Based Exposures** |
| | **30.09.2013** | **30.09.2013** |
| **Domestic operations** | 264039.57 | 217141.42 |
| **Overseas operations** | 19666.88 | 8612.56 |
| **Total** | **283706.45** | **225753.98** |

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**(d) Industry Type Distribution of Exposures (Global)**

| | | | (` in crores) |
|---|---|---|---|
| **SL NO.** | **INDUSTRY** | **Fund Based Outstanding** | **Non Fund Based Outstanding** |
| | | **30.09.2013** | **30.09.2013** |
| 1.1 | **Mining and Quarrying** | **2827** | **432** |
| 1.2 | **Food Processing** | **6673** | **436** |
| | 1.2.1 Sugar | 2038 | 58 |
| | 1.2.2 Edible Oils and Vanaspati | 679 | 123 |
| | 1.2.3 Tea | 127 | 82 |
| | 1.2.4 Others | 3829 | 173 |
| 1.3 | **Beverage & Tobacco** | **693** | **19** |
| 1.4 | **Textiles** | **12953** | **1408** |
| | 1.4.1 Cotton Textiles | 5777 | 291 |
| | 1.4.2 Jute Textiles | 136 | 32 |
| | 1.4.3 Other Textiles | 7040 | 1085 |
| 1.5 | **Leather & Leather Products** | **1053** | **52** |
| 1.6 | **Wood and Wood Products** | **503** | **135** |
| 1.7 | **Paper & Paper Products** | **2313** | **81** |
| 1.8 | **Petroleum, Coal Products and Nuclear Fuels** | **4400** | **3619** |
| 1.9 | **Chemicals and Chemical Products** | **4873** | **685** |
| | 1.9.1 Fertilizer | 302 | 93 |
| | 1.9.2 Drugs & Pharmaceuticals | 2102 | 286 |
| | 1.9.3 Petro Chemicals | 579 | 10 |
| | 1.9.4 Others | 1890 | 296 |
| 1.10 | **Rubber, Plastic & their Products** | **1427** | **172** |
| 1.11 | **Glass and Glassware** | **178** | **11** |
| 1.12 | **Cement and Cement Products** | **1196** | **39** |
| 1.13 | **Basic Metal and Metal Products** | **20103** | **4003** |
| | 1.13.1 Iron and Steel | 13903 | 3199 |
| | 1.13.2 Other Metal and Metal Products | 6200 | 803 |
| 1.14 | **All Engineering** | **8016** | **5481** |
| | 1.14.1 Electronics | 1781 | 1063 |
| | 1.14.2 Electricity | 1843 | 1920 |
| | 1.14.3 Others | 4392 | 2497 |

| | | | |
|---|---|---|---|
| 1.15 | **Vehicles, Vehicle Parts and Transport Equipments** | **3234** | **431** |
| 1.16 | **Gems & Jewellery** | **2152** | **1621** |
| 1.17 | **Construction** | **4629** | **4025** |
| 1.18 | **Infrastructure** | **60362** | **4165** |
| | 1.18.1 Power | 39414 | 3556 |
| | 1.18.2 Telecommunications | 7669 | 334 |
| | 1.18.3 Roads | 6062 | 11 |
| | 1.18.4 Airports | 1155 | 0 |
| | 1.18.5 Ports | 623 | 2 |
| | 1.18.6 Railways (other than Indian Railways) | 882 | 117 |
| | 1.18.7 Other Infrastructure | 4557 | 146 |
| 1.19 | **Other Industries** | **19493** | **1050** |
| | **INDUSTRY (Total of Small, Medium and Large Scale)** | **157076** | **27865** |

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 | 42970 | 8.43% |

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### (e) Residual Contractual Maturity Breakdown of Assets

| | | | `. in Crores |
|---|---|---|---|
| **Maturity Pattern** | **Advances** | **Investments** | **Foreign Currency Assets** |
| | **30.09.2013** | **30.09.2013** | **30.09.2013** |
| **0 to 1 day** | 9473.88 | 0.00 | 3940.16 |
| **2 to 7 days** | 11953.40 | 562.57 | 1454.43 |
| **8 to 14 days** | 10154.21 | 153.59 | 716.23 |
| **15 to 28 days** | 12045.56 | 680.71 | 1532.72 |
| **29 days to 3 months** | 22913.82 | 3355.65 | 7374.20 |
| **Over 3 months & upto 6 months** | 25445.81 | 4175.79 | 8041.47 |
| **Over 6 months & upto 1 year** | 35070.17 | 1306.01 | 4895.38 |
| **Over 1 year & upto 3 years** | 77267.30 | 12552.58 | 3589.55 |
| **Over 3 year & upto 5 years** | 26910.34 | 12213.43 | 1243.54 |
| **Over 5 years** | 49869.98 | 81498.61 | 1216.38 |
| **Without Maturity** | 0 | 3091.15 | 0 |
| **Total** | **281104.47** | **119590.09** | **34004.06** |

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

| Sl No | Items | | Amount (` in crores) 30.09.2013 |
|---|---|---|---|
| a) | **Gross NPAs** | | **7475** |
| | ▪ | Sub-Standard | **4770** |
| | ▪ | Doubtful 1 | **1669** |
| | ▪ | Doubtful 2 | **1036** |
| | ▪ | Doubtful 3 | **-** |
| | ▪ | Loss | **-** |
| b) | **Net NPAs** | | **6459** |
| c) | **NPA Ratios** | | |
| | ▪ | Gross NPAs to Gross Advances (%) | **2.64%** |
| | ▪ | Net NPAs to Net Advances (%) | **2.30%** |
| d) | **Movement of NPAs (gross)** | | |
| | ▪ | Opening balance | **6260** |
| | ▪ | Additions | **4209** |
| | ▪ | Reductions | **2993** |
| | ▪ | Closing Balance | **7475** |
| e) | **Movement of Provisions for NPAs** | | |
| | ▪ | Opening Balance | 933 |
| | ▪ | Exchange Fluctuations & Others | 51 |
| | ▪ | Provisions made during the period | 790 |
| | ▪ | Write-off | 749 |
| | ▪ | write back of excess provisions | 50 |
| | ▪ | Closing Balance | 975 |
| f) | **Amount of Non-Performing Investments** | | **306** |
| g) | **Amount of Provisions held for Non-Performing Investments** | | **238** |
| h) | **Movement of Provisions for Depreciation on Investments** | | |
| | ▪ | Opening Balance | **213** |
| | ▪ | Provisions made during the period | **70** |
| | ▪ | Write-off | **18** |
| | ▪ | Write Back of excess Provisions | **0** |
| | ▪ | Closing Balance | **264** |

**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:
  - If there are two ratings accorded by chosen ECAIs, which map into different risk weights, the higher risk weight is applied.
  - 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 |
| | | 30.09.2013 | 30.09.2013 |
| 1 | Below 100% Risk Weight | 113764.75 | 60957.33 |
| 2 | 100% Risk Weight | 96290.76 | 43048.27 |
| 3 | More than 100% Risk Weight | 74547.74 | 26720.06 |
| 4 | Deducted (Risk Mitigants) | 64014.10 | 4663.26 |
| 5 | TOTAL | **220589.15** | **126062.40** |

**Table DF- 5: Credit Risk Mitigation: Disclosures for Standardized Approaches**

**(i) Qualitative disclosures**

**Policies and processes for collateral valuation and management:** The Bank is having a Board approved collateral management policy which lays down the process, objectives, accepted types of collaterals and the framework including suitable management information system for effective collateral management ,The Collaterals and guarantees properly taken and managed that would serve to:

- mitigate the risk by providing secondary source of repayment in the event of borrower's default on a credit facility due to inadequacy in expected cash flow or not;
- gain control on the source of repayment in the event of default;
- provide early warning of a borrower's deteriorating repayment ability; and
- Optimize risk weighted assets and to address Residual Risks adequately.

Bank uses a number of techniques to mitigate the credit risks to which they are exposed. The revised approach allows banks in India to adopt the Comprehensive Approach (under both the Standardized and IRB approaches) which allows fuller offset of collateral against exposures by effectively reducing the exposure amount by the value ascribed to the collateral. Under this approach, banks, which take eligible financial collateral, are allowed to reduce their credit exposure to the counterparty when calculating their capital requirements by taking into account the risk mitigating effect of the collateral.

Collateral Management process and practices of the Bank cover the entire activities comprising security and protection of collateral value, validity of collaterals and guarantees, and valuation / periodical inspection.

**Valuation:** Both the Fixed and the Current Assets obtained to secure the loans granted by the Bank are subjected to valuation by valuers empanelled by the Bank. Monetary limits of the accounts, asset classification of the borrower, which is to be subjected to valuation, periodicity of valuation, are prescribed in the Banks' policy guidelines. Bank reviews the guidelines on valuation periodically.

**Description of the main types of collateral taken by the Bank:** The collateral commonly used by the Bank as risk mitigants comprises of Financial Collaterals (i.e. Cash, Bank deposits, Life Insurance policies, NSC, KVP, Government securities issued directly / by postal departments, equity shares of limited companies other than the Bank and approved by the Bank, debentures, units of mutual funds, debt securities etc.), different categories of moveable assets and immoveable assets / properties etc.

However, for the purpose of computation of capital required under Standardized Approach, certain specific financial collaterals have been recognized as eligible collateral.

**Main types of Guarantor counterparty and their creditworthiness:** Bank obtains/ accepts guarantees of sovereign, sovereign entities (including BIS, IMF, European Central Bank and European community as well as Multilateral Development Banks, ECGC and CGTMSE).Besides this, Bank also obtains Personal or Corporate guarantee having adequate net worth, as an additional comfort for mitigation of credit risk which can be translated into a direct claim on the guarantor, and are unconditional and irrevocable. The Creditworthiness of the guarantor is normally not linked to or affected by the borrower's financial position. The Bank also accepts guarantee given by State / Central Government as a security comfort. Such Guarantees remain continually effective until the facility covered is fully repaid or settled or released.

**Credit Risk Mitigation recognized by the Bank for the purpose of reducing capital requirement under New Capital Adequacy Framework (Basel II Norms):** The Bank has recognized Cash, Bank's own Deposits, Gold & Gold Jewellery as Credit Risk Mitigations for the purpose of reducing capital requirement under the New Capital Adequacy Framework (Basel II Norms).

**Information about risk concentration within the mitigation taken:** The Bank has already initiated steps for putting in place a data warehouse for a robust Management Information System (MIS) to facilitate management of Credit Risk and evaluation of effectiveness of collateral management including risk concentrations of collaterals.

**(ii) Quantitative Disclosures**

| SL NO | PARTICULARS | AMOUNT (` in crores) |
|---|---|---|
| | | 30.09.2013 |
| (b) | The total exposure (after, where applicable, on- or off balance sheet netting) that is covered by eligible financial collateral after the application of haircuts for each separately disclosed credit risk portfolio. | 40202.06 |
| (c) | The total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees/credit derivatives (whenever specifically permitted by RBI) for each separately disclosed portfolio | 28475.30 |

**Table DF-6: Securitization Exposures: Disclosure for Standardized Approach**

**(i) Qualitative disclosures**

The policy guidelines cover guidelines involving transfer of assets through Securitization and direct assignment of cash flows only and are on without recourse basis.

The guidelines to banks on securitisation of standard assets contain:

- The provisions relating to securitization of assets.
- Stipulations regarding transfer of standard assets through direct assignment of cash flows.
- Enumerates the securitization transactions which are currently not permissible in India.

The bank's existing policy guidelines deals with purchase of pools from an originator (Bank/NBFC/FI). Purchase of assets through Direct Assignment of cash flows from originating NBFCs/Banks/FIs shall be only from those rated 'A' and above. The Bank purchases portfolio with underlying assets pertaining to Agriculture, MSME, Retail and Non priority portfolio.

Bank can purchase loans from other banks/FIs/NBFCs in India only if the seller has explicitly disclosed to the bank that it will adhere to the Minimum Retention Requirement on an ongoing basis.

The bank monitors the purchased transaction on an ongoing basis and in timely manner performance information and take appropriate action, if required.

The exposure to the originator shall be within the prudential exposure ceilings stipulated by the Bank.

The general prescription laid down in the Master policy on Credit Risk Management with regard to loan review mechanism and monitoring shall be adhered to in respect of the individual loans.

**(ii) Quantitative Disclosures**

**BANKING BOOK**

| Sl No | Particulars | 30.09.2013 |
|---|---|---|
| | NIL | |

**TRADING BOOK**

| Sl No | Particulars | 30.09.2013 |
|---|---|---|
| | NIL | |

During the year 2004-05, the Bank had sold 6 NPA accounts amounting to ` 14.31 crore to Asset Reconstruction company India Limited (ARCIL) and had received Security Receipts for ` 14.31 crore. As on 30.09.2013 the Bank holds Security Receipts in respect of 4 accounts having a Book Value of ` 5.76 crore which is fully provided for.

**Table DF – 7: Market Risk in Trading Book**

**(i) Qualitative disclosures**

**Strategies and processes:** The overall objective of market risk management is to create shareholder value by improving the Bank's competitive advantage and reducing loss from all types of market risk loss events.

- While overall leadership and control of the risk management framework is provided by Risk Management Wing, the business units are empowered to set strategy for taking risks and manage the risks.

- All issues or limit violations of a pre-determined severity (materiality, frequency, nature) are escalated to the Risk Management Wing where the actions to address them are determined by the appropriate authorities. The business units are responsible for implementing the decision taken.

The process aims to

- Establish a pro-active market risk management culture to cover market risk activities.
- Comply with all relevant legislation and regulatory requirements relating to Market Risk
- Develop consistent qualities in evolving policies & procedures relating to identification, measurement, management, monitoring, controlling and reviewing of Market Risk.
- Establish limit structure and triggers for various kinds of market risk factors
- Establish efficient monitoring mechanism by setting up a strong reporting system.
- Adopt independent and regular evaluation of the market risk measures.

**The structure and organization of the relevant risk management function:** Market Risk Management structure of the Bank is as under-

- Board of Directors
- Risk Management Committee of the Board
- Asset Liability Management Committee (ALCO)
- Market Risk Management Committee
- General Manager-R M Wing (Chief Risk Management officer)-Head Office
- Market Risk Management Department, Risk Management Wing HO
    - Integrated Mid Office
    - Asset Liability Management Section

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

- The Bank has put in place various exposure limits for market risk management such as Overnight limit, Intraday limit, Aggregate Gap limit, Stop Loss limit, VaR limit, Broker Turnover limit, Capital Market Exposure limit, Product-wise Exposure limit, Issuer-wise Exposure limit etc.
- A risk reporting system is in place for monitoring the risk limits across different levels of the Bank from trading desk to the Board level.
- The rates used for marking to market for risk management or accounting purposes are independently verified.
- The reports are used to monitor performance and risk, manage business activities in accordance with the Bank's strategy.
- The reporting system ensures timelines, reasonable accuracy with automation, highlight portfolio risk concentrations, and include written commentary.
- The detailed risk reports enhance the decision-making process.
- Dealing room activities are centralized, and system is in place to monitor the various risk limits.
- The reporting formats & the frequency are periodically reviewed to ensure that they suffice for risk monitoring, measuring and mitigation requirements of the Bank.

**Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants:** Various Board approved policies viz., Market Risk Management Policy (Including Country Risk Management and Counterparty Bank Risk Management) Investment Policy, Forex dealing and trading operations Policy, Liquidity Risk Management Policy and ALM Policy are put in place for market risk management. Market Risk Management Policy provides the framework for risk assessment, identification and measurement and mitigation, risk limits & triggers, risk monitoring and reporting.

The Bank has developed an internal model for country risk rating based on various parameters like GDP growth, inflation, trade balance etc for risk categorization of the countries to allocate limit for taking exposure to various countries.

The Bank has in place a scoring model for categorization of Foreign banks under Counterparty Risk Management Policy. The various exposure limits are set based on the points secured by the counterparties as per the scoring matrix.

Liquidity Risk Management Policy lays down various guidelines to ensure that the liquidity position is comfortable at times of stress by formulating contingency funding plan. Tolerance levels are incorporated under each time frame and any breach of it would signal a forthcoming liquidity constraint.

**(i) Quantitative Disclosures**

| Sl No | Particulars | Amount of capital requirement (`. in crores) |
|---|---|---|
| | | 30.09.2013 |
| (a) | Interest Rate Risk | 1117.56 |
| (b) | Equity Position Risk | 325.28 |
| (c) | Foreign Exchange Risk | 42.93 |

**Table DF – 8: Operational Risk**

**(i) Qualitative Disclosures**

**Strategies and processes:** The Operational Risk Management process of the Bank is driven by a strong organizational culture and sound operating procedures, involving corporate values, attitudes, competencies, internal control culture, effective internal reporting and contingency planning. Policies are put in place for effective management of Operational Risk in the Bank.

**The structure and organization of the relevant risk management function:** The Operational Risk Management Structure in the Bank is as under:

- Board of Directors
- Risk Management Committee of the Board (RMCB)
- Operational Risk Management Committee (ORMC)
- Head / General Manager – Risk Management / Chief Risk Management Officer
- Operational Risk Management Department (ORMD), HO
- Chief General Managers / General Managers of Wings / Circle Heads
- Nominated Executives at Circles
- Risk Management Sections at Circles.
- Risk Officer (Circle Offices / Nodal Officers in functional Wings at Head Office).

**The scope and nature of risk reporting and/or measurement systems:** The Risk reporting consists of operational risk loss incidents/events occurred in branches/offices relating to people, process, technology and external events. The data collected from different sources are used for preparation of Risk Matrix consisting of 7 loss event types and 8 business lines recognized by the RBI.

**Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants:** Bank has put in place policies for management of Operational Risk management. The policy framework contains various aspects of Operational risk management such as identification, management, monitoring & mitigation of Operational risk areas.

In order to address risks involved in Outsourcing of activities, bank has put in place policies for management of Outsourcing Risk.

**Operational Risk capital assessment:** The Bank has adopted Basic Indicator Approach for calculating capital charge for Operational Risk.

**(ii) Quantitative Disclosure:**

The capital requirement for Operational Risk under Basic Indicator Approach is `.1546.35 Crores.

## Table DF – 9: Interest Rate Risk in the Banking Book (IRRBB)

### (i) Qualitative Disclosures

**Interest Rate Risk in Banking Book (IRRBB)**

Interest rate risk is the risk where changes in market interest rates affect a bank's financial position. As the bank holds rate sensitive on and off balance-sheets items of different maturity/repricing, currencies, markets and benchmark rates, and any adverse movement in these parameters exposes bank to interest rate risk. Interest Rate Risk in Banking Book (IRRBB) reveals the impact on bank's earnings (short-term impact) and networth (long-term impact) due to adverse movement of interest rates and is measured on a monthly basis.

**Organizational Framework**

Asset Liability Management Committee (ALCO) of the Bank is responsible for developing and implementing interest rate risk management strategy, managing interest rate risk in different currencies, across borders and across business lines and legal entities as per the risk tolerance established by the Board of Directors/Risk Management Committee. The ALCO also articulates the interest rate view of the bank and bases its decisions for future business strategy. In respect of the funding policy, its responsibility is to decide on source and mix of liabilities for creation of assets. ALCO monitors the various limits established by the Board for interest rate risk and takes corrective action if there is any breach in the limit.

**Strategies and Processes**

The Bank strives to match the price of its assets and liabilities coupled with proper maturity matching in-order to reduce the gap in different time buckets which are maturing or getting repriced. For measurement and management of interest rate risk, Bank adopts both the Traditional Gap Analysis (TGA) and the Duration Gap Analysis (DGA) to its global position of assets, liabilities and off-balance sheet items, which are rate sensitive.

The Bank compute its interest rate risk position in each currency applying the TGA and DGA to the rate sensitive assets/ liabilities/ off balance sheet items in that currency, where either the assets, or liabilities are 5 per cent or more of the total of either the Bank's global assets or global liabilities. The interest rate risk position in all other residual currencies is computed separately on an aggregate basis. The non-maturing deposits are classified as per the behavioral study of the Bank.

The interest rate risk arises on account of re-pricing, yield curve change, basis risk and options risk. The Bank aims at capturing these risks arising from the maturity and re-pricing mismatches both from earnings perspective and economic value perspective using techniques viz.,

1. *Gap Analysis:* The basic tool for measuring interest rate risk is preparation of Interest Rate Sensitivity Statement (IRS) by grouping various items of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) and off balance-sheet items into different time buckets according to the residual maturity or next re-pricing, whichever is earlier and arriving at the net gap (i.e., RSA - RSL). A positive or asset sensitive Gap means that an increase in market interest rates result in an increase in NII. Conversely, a negative or liability sensitive Gap implies that the Bank's NII could decline as a result of increase in market interest rates.

2. *Earnings at Risk (EaR):* Earnings at Risk (EaR) indicates whether the bank is in a position to benefit by the rise in interest rate by having positive gap or benefits by fall in interest rate by having a negative gap. The impact of repricing risk on the earnings due to the parallel shift in interest rate is assessed for different rate shocks. Impact on the earnings is also estimated for yield curve change and basis risk.

3. *Market Value of Equity (MVE):* A long-term impact of changing interest rates is on bank's Market Value of Equity (MVE) or Net-worth as the economic value of bank's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The estimated drop in the Market Value of Equity (MVE) as a result of prescribed rate shock is estimated by the Duration Gap Analysis (DGA) arising from changes in the value of interest rate sensitive positions across the whole Bank.

**(ii) Quantitative Disclosures**

**EARNINGS AT RISK**

The following table presents the impact on net interest income of the Bank for an assumed parallel shift of 100 bps in interest rate up to one year across currencies as at 30.09.2013.

| | | **(Amount in `. in crore)** |
|---|---|---|
| **Currencies** | **Change in interest rate up to 1 Year** | |
| | **30.09.2013** | |
| | **-100 bps** | **+100 bps** |
| **INR** | (-) 427.34 | 427.34 |
| **USD** | (-) 62.60 | 62.60 |
| **Others** | (-) 14.67 | 14.67 |
| **Total** | **(-) 504.61** | **504.61** |

**ECONOMIC VALUE OF EQUITY**

| | **-200 bps** | **+200 bps** |
|---|---|---|
| **Change in Economic Value of Equity** | 9.45% | (-) 9.45% |

**Table DF – 10: General Disclosure for exposures related to Counterparty Credit Risk**

**(i) Qualitative Disclosures**

Counterparty Credit Risk is defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows and is the primary source of risk for derivatives and securities financing transactions. Unlike a Bank's exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, the counterparty credit risk is bilateral in nature i.e. the market value of the transaction can be positive or negative to either counterparty to the transaction and varying over time with the movement of underlying market factors.

An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

Bank offers many products like derivative products to customers to enable them to deal with their exposures to interest rate and currencies and to earn a margin over the ruling market price for the derivative. All over-the-counter derivative leads to counterparty credit exposures which bank monitors on a regular basis. The margin loaded for these transactions also take into account of the quality and quantity of the credit risk, and the desired return on equity. The marketing team at Integrated Treasury Wing/Circle Offices/ Branches ensures that the derivative products offered to individual customers conform to the suitability and appropriateness policy.

Banks ensures all the due diligence are to be adhered to viz. KYC norms, satisfactory dealing, credit worthiness of the party before extending any derivative products to the party.

To secure the facility extended to the party and to mitigate the counterparty credit risk , Bank insists for obtention of existing collaterals that is available for other limits to cover the derivative exposures also.

In case of parties not enjoying credit limits, collaterals in the form of cash margin, deposits with our Bank or any other liquid asset are stipulated to the extent of 25% of the derivative exposure.

In case of large PSUs, Blue-Chip companies where we take exposure on syndication basis, the agreed terms by the syndicate of banks shall apply.

Credit Risk Management Policy a guideline with regard to assessment of credit limits and evaluation of liquidity applies mutatis mutandis to derivative exposures also. In addition, assessment of suitability and appropriateness of the counterparty are also being being ensured.

Bank assesses the maximum risk the Bank takes on a particular client on derivatives and maximum tenor up to which such risk can be taken basing on the financial standing, comfort level, assessment of integrity and all other existing exposures of such party.

To mitigate and monitor the counter party credit exposure, the outstanding derivative transactions are monitored on a monthly basis .

Where transactions show MTM –ve, the sanctioning authority should take a view on continuing the exposure based on credit comfort available. Where losses are large and more than 50% of the credit exposure, additional collateral may be insisted upon.

A break clause in the documentation stipulated so that the same can be triggered when it is perceived that party may not be able to meet the commitments or offer additional collateral. This is stipulated in the sanction memorandum. The fact of imposing a break clause is made known to the corporate and concurrence is obtained.

The derivative exposure and MTM thereon are part of MTR of the borrowal account. Any settlements funded by the Bank and outstanding or devolved and is paid subsequently reported in the review. Such devolvement is to be treated on par with credit devolvement.

Mutual termination clause is incorporated in documentation. In addition to other credit events, transfer of accounts to another Bank is treated as credit event .This enables the Bank to shut out the transaction at MTM and transfer the exposure to the Bank, which is taking over the account.

**(ii) Quantitative disclosure**

| | | | **(Amount in `. in crore)** |
|---|---|---|---|
| **Sl No** | **Particulars** | **Notional Amount 30.09.2013** | **Current Exposure 30.09.2013** |
| 1 | Foreign Exchange Contracts | 161040.92 | 5054.62 |
| 2 | Cross Currency Interest rate Swaps | 591.58 | 44.00 |
| 3 | Single Currency Interest Rate Swaps | 3643.24 | 317.56 |
| **4** | **Total** | **165275.74** | **5416.18** |