# BASEL III - Pillar 3 DISCLOSURES OF TAMILNAD MERCANTILE BANK LTD.
## As on 30th June 2014

## Table DF-2

## Capital Adequacy

### Qualitative Disclosures

**A. A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.**

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 computation of Capital for credit risk under Standardized Approach, is done granularly borrower & account wise based on the data captured through Core Banking Solution. Bank is also taking efforts on an ongoing basis for the accuracy of the data. The various aspects of NCAF norms are imparted to field level staff regularly through circulars and letters for continuous purification of data and to ensure accurate computation of Risk Weight and the Capital Charge. The Bank has used the credit risk mitigation in computation of capital for credit risk, as prescribed in the RBI guidelines under Standardized Approach.

The capital for credit risk on Loans and Advances, market risk and operational risk as per the prescribed approaches are being computed at the bank's Head Office and aggregated to arrive at the bank's CRAR position. The bank has followed the RBI guidelines in force, to arrive at the eligible capital funds, for computing CRAR.

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, which is approved by the Board. While the surplus CRAR available at present acts as a buffer to support the future activities, the headroom available for the bank for mobilizing Tier 1 and Tier 2 capital (subject to approval by the competent authorities) is also assessed to meet the required CRAR against future activities.

The Bank has a strong Common Equity Tier 1 as the entire components of CET1 capital comprises of Paid up Capital, Reserves & Surplus and retained earnings.

**Minimum capital requirements under Basel-III:**

Under the Basel III Capital Regulations, Banks are required to maintain a minimum Pillar 1 Capital (Tier-I + Tier-II) to Risk-weighted Assets Ratio (CRAR) of 9% on an on-going basis. Besides this minimum capital requirement, Basel III also provides for creation of capital conservation buffer (CCB). The transitional period of full implementation of Basel III capital regulation in India is extended up to March 31,2019. Accordingly the CCB requirements are to be implemented from March 31, 2016 in phases and are to be fully implemented by March 31, 2019 to the extent of 2.5% of Risk weighted Assets.

The total regulatory capital fund under Basel- III norms will consist of the sum of the following categories and banks are required to maintain 11.50% of Risk Weighted Assets (9% + 2.5%) by March 2019 with the phase in requirements under CCB from 2016.

- Tier 1 Capital comprises of:-
    - Common Equity Tier 1 capital (with a minimum of 5.5%)
    - Additional Tier 1 capital (1.50%)
    - Total Tier 1 capital of minimum 7%

- Tier 2 Capital (2%)
    - Total Tier 1 + Tier 2 should be more than 9%

- Capital Conservation Buffer (CCB). ( with a minimum of 2.5%)
    - Total capital including CCB should be 11.5%

In line with the RBI guidelines for implementing the New Capital Adequacy Frame Work under Basel III, the bank has successfully migrated to the framework from April 01, 2013.

**Quantitative Disclosure**

**( ₹ in crore)**

| | | | |
|---|---|---|---|
| a) | Capital requirement for Credit Risk: (@9% on risk Weighted Assets) | | |
| | • Portfolios subject to Standardised Approach | | 1167.69 |
| | • Securitisation exposures | | Nil |
| | | | |
| b) | Capital requirements for Market Risk: | | |
| | • Standardised Duration Approach | | 48.86 |
| | o Interest Rate Risk | 44.63 | |
| | o Foreign Exchange Risk | 2.70 | |

| | | | |
|---|---|---|---|
| | o Equity Risk | 1.53 | |
| | | | |
| c) | Capital requirements for Operational Risk: | | |
| | • Basic Indicator Approach | | 152.71 |
| | Total Capital required @9% | | 1369.26 |
| d) | Total Capital funds available | | 2324.06 |
| | Total Risk Weighted Assets | | 15213.97 |
| | Common Equity Tier I CRAR | | 14.66% |
| | Tier I CRAR | | 14.66% |
| | Tier II CRAR | | 0.62% |
| | Total CRAR | | 15.28% |

**2. Risk exposure and Assessment**

Risk is an integral part of banking business in an ever dynamic environment, which is undergoing radical changes both on the technology front and product offerings. The main risks faced by the bank are credit risk, market risk and operational risk. The bank aims to achieve an optimum balance between risk and return to maximize shareholder value. The relevant information on the various categories of risks faced by the bank is given in the ensuing sections. This information is intended to give market participants a better idea on the risk profile and risk management practices of the bank.

The Bank has a comprehensive risk management system in order to address various risks and has set up an Integrated Risk Management Department (RMD), which is independent of operational departments. Bank has a Risk Management Committee of Board functioning at apex level for formulating, implementing and reviewing bank's risk management measures pertaining to credit, market and operational risks. Apart from the Risk Management Committee of the Board at apex level, the Bank has a strong Bank-wide risk management structure comprising of Risk Management Committee of Executives (RMCE) and Asset Liability Management Committee (ALCO) at senior management level.

The Bank has formulated the required policies such as Loan Policy, Credit Risk Management Policy, Credit Risk Mitigation Techniques & Collateral Management Polices, ALM Policy, Operational Risk Policy, Investment Policy, Foreign Exchange Risk Management Policy, Policy for Hedging Foreign Currency Loan Exposure, Concurrent Audit Policy, Inspection Policies, IS Audit Policy, KYC policy, Post Credit Supervision Policy, Stock Audit Policy, Out Sourcing Policy, Risk Based Internal Audit Policy, Stress Testing Policy, Disclosure Policy, ICAAP Policy, etc for mitigating the risks in various areas and monitoring the same. The bank continues to focus on refining and improving its risk measurement and management systems.

## Table DF-3

## CREDIT RISK: GENERAL DISCLOSURES

### Qualitative Disclosures:

### a) Credit Risk

Credit risk is the possibility of losses associated with diminution in the credit quality of borrowers or counter-parties. In a Bank's portfolio, Credit Risk arises mostly from lending activities of the Bank, as a borrower is unable to meet his financial obligations to the lender. It emanates from potential changes in the credit quality / worthiness of the borrowers or counter-parties.

### Credit Rating & Appraisal Process

The Bank has well structured internal credit rating framework and well-established standardized credit appraisal / approval processes. Credit Rating is a decision-enabling tool that helps the bank to take a view on acceptability or otherwise of any credit proposal. In order to widen the scope and coverage further and strengthen the credit risk management practices, the bank has developed risk sensitive rating models in-house during the year 2008-09 and 2009-10.

The internal rating factors take into consideration the quantitative and qualitative issues relating to management risk, business risk, industry risk, financial risk, credit discipline, and also risk mitigation, based on the collaterals available.

Credit rating, as a concept, has been well internalized within the Bank. The rating for eligible borrower is reviewed at least once in a year. The Bank uses the credit ratings for deciding the interest rates on borrowal accounts. The advantage of credit rating is that it enables to rank different proposals and do meaningful comparison.

With the view to migrate to advanced approaches in credit risk, the Bank has implemented the system driven rating using web based rating model solution (RAM & CRESS) acquired from M/s. Crisil Risk &Infrastructure solutions Ltd.,

The bank follows a well-defined multi layered discretionary power structure for sanction of loans. Credit Approval Grid has been constituted at H.O for considering in-principle approval for taking up fresh credit proposals above a specified cut-off.

### Credit Risk Management Policies

The Bank has put in place a well-structured Credit Risk Management Policy duly approved by the Risk Management Committee of Board (RMCB). The Policy document defines organization structure, role & responsibilities and, the processes whereby the Credit Risks carried by the Bank can be identified, quantified & managed within the framework that the Bank considers consistent with its mandate and risk tolerance.

Credit Risk is monitored on a bank-wide basis and compliance with the risk limits approved by Board/Risk Management Committee of Board is ensured.

The Bank has taken earnest steps to put in place best credit risk management practices in the bank. In addition to Credit Risk Policy, the bank has also framed Board approved Loan Policy, Investment Policy etc. which forms integral part in monitoring Credit risk in the bank. Besides, the bank has implemented a policy on Collateral Management and Credit Risk Mitigation with the approval of the RMCB which lays down the details of securities (both Primary and Collateral) normally accepted by the Bank and administration of such securities to protect the interest of the Bank. These securities act as mitigation against the credit risk to which the bank is exposed.

**<u>Classification of Non Performing Assets</u>**

The Bank follows the prudential guidelines issued by the RBI on classification of non-performing assets as under,

i) interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.
ii) the account remains 'out of order' if the outstanding balance remains continuously in excess of sanctioned limits / DP for more than 90 days in respect of Overdraft/Cash Credit (OD/CC).
iii) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted
iv) the installment of principal or interest thereon remains overdue for two crop seasons for short duration crop.
v) the installment of principal or interest thereon remains overdue for one crop season for long duration crops.

Where the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter, the account is classified as non-performing. A non-performing asset ceases to generate income for the bank.

**(₹ in crore)**

| **Quantitative Disclosures** | **Applicability to our Bank** | |
|---|---|---|
| **a. Gross Credit Risk Exposures** | FB<br>NFB | 16965.14<br>6193.03 |

**b. Geographical Distribution of Exposures:**

| . **Geographical Region** | **Domestic** | | **Overseas** | | **Total** |
|---|---|---|---|---|---|
| | **FB** | **NFB** | **FB** | **NFB** | |
| Northern | 338.55 | 197.78 | - | - | 536.33 |
| Southern | 14100.09 | 5261.61 | - | - | 19361.70 |
| Eastern | 489.99 | 61.12 | - | - | 551.11 |
| Western | 2036.51 | 672.52 | - | - | 2709.03 |
| | | | | | |
| Total | 16965.14 | 6193.03 | - | - | 23158.17 |

c. **Industry type distribution of credit outstanding as on 30.06.2014 – Fund based and Non-fund based:**

| **Industry Name** | **Outstanding** | | | **% to total credit outstanding** |
|---|---|---|---|---|
| | **FB** | **NFB** | **Total** | |
| **Mining and Quarrying (incl. Coal)** | **84.13** | **25.98** | **110.11** | **0.48%** |
| Coal | 55.86 | 3.64 | 59.50 | 0.26% |
| Mining | 28.27 | 22.34 | 50.61 | 0.22% |
| **Food Processing** | **606.17** | **246.83** | **853.00** | **3.68%** |
| Sugar | 46.52 | 0.12 | 46.64 | 0.20% |
| Edible Oils and Vanaspathi | 63.49 | 199.70 | 263.19 | 1.14% |
| Tea | 0.10 | 0.00 | 0.10 | 0.00% |
| Coffee | 16.44 | 0.79 | 17.23 | 0.07% |
| Others | 479.62 | 46.22 | 525.84 | 2.27% |
| **Beverage & Tobacco** | **17.42** | **1.35** | **18.77** | **0.08%** |
| Tobacco and tobacco products | 0.66 | 1.02 | 1.68 | 0.01% |
| Others | 16.76 | 0.33 | 17.09 | 0.07% |
| **Textiles** | **1970.37** | **365.45** | **2335.82** | **10.09%** |
| Cotton Textiles | 240.66 | 79.16 | 319.82 | 1.38% |
| Jute Textiles | 1.90 | 0.00 | 1.90 | 0.01% |
| Man-Made Textiles(handicraft/Khadi) | 0.44 | 0.00 | 0.44 | 0.00% |
| Silk | 1.94 | 0.00 | 1.94 | 0.01% |
| Woolen | 0 | 0.00 | 0.00 | 0.00% |

| | | | | |
|---|---|---|---|---|
| Other Textiles | 1725.43 | 286.29 | 2011.72 | 8.69% |
| *Out of total textiles to Spinning mills* | *877.37* | *59.06* | 936.43 | 4.04% |
| **Leather & Leather Products** | **5.27** | **2.01** | **7.28** | **0.03%** |
| **Wood and Wood Products** | **71.20** | **156.47** | **227.67** | **0.98%** |
| **Paper & Paper Products** | **187.52** | **7.03** | **194.55** | **0.84%** |
| **Petroleum, Coal Products and Nuclear Fuels** | **0.14** | **2.39** | **2.53** | **0.01%** |
| **Chemicals and Chemical Products** | **127.82** | **26.29** | **154.11** | **0.67%** |
| Fertilizer | 2.02 | 0.03 | 2.05 | 0.01% |
| Drugs & Pharmaceuticals | 12.73 | 4.91 | 17.64 | 0.08% |
| Petro Chemicals | 1.21 | 0.03 | 1.24 | 0.01% |
| Others | 111.86 | 21.32 | 133.18 | 0.58% |
| **Rubber, Plastic & their Products** | **54.05** | **1.25** | **55.30** | **0.24%** |
| **Glass and Glass Ware** | **0.04** | **0.00** | **0.04** | **0.00%** |
| **Cement and Cement Products** | **3.54** | **0.40** | **3.94** | **0.02%** |
| **Basic Metal and Metal Products** | **392.89** | **60.21** | **453.10** | **1.96%** |
| Iron and Steel | 288.27 | 13.06 | 301.33 | 1.30% |
| Other Metal and Metal Products | 104.62 | 47.15 | 151.77 | 0.66% |
| **All Engineering** | **193.74** | **15.69** | **209.43** | **0.90%** |
| Electronics | 30.67 | 3.94 | 34.61 | 0.15% |
| Others | 163.07 | 11.75 | 174.82 | 0.75% |
| **Vehicles, Vehicle Parts and Transport Equipments** | **7.03** | **2.86** | **9.89** | **0.04%** |
| **Gems & Jewellery** | **18.58** | **0.00** | **18.58** | **0.08%** |
| **Construction** | **30.17** | **8.24** | **38.41** | **0.17%** |
| **Infrastructure** | **1251.21** | **184.07** | **1435.28** | **6.20%** |
| Transport | 460.93 | 134.09 | 595.02 | 2.57% |
| Railways | 0 | 0 | 0.00 | 0.00% |
| *Roadways* | *460.93* | *134.09* | 595.02 | 2.57% |
| Airport | 0.00 | 0.00 | 0.00 | 0.00% |
| Waterways | 0.00 | 0.00 | 0.00 | 0.00% |
| Others | 0.00 | 0.00 | 0.00 | 0.00% |
| Energy | 785.61 | 48.06 | 833.67 | 3.60% |
| *Electricity (generation-transportation & distribution)* | *785.61* | *48.06* | 833.67 | 3.60% |
| State Electricity Boards | 64.05 | 48.06 | 112.11 | 0.48% |
| Others | 721.36 | 0.00 | 721.36 | 3.11% |
| Oil/Gas/Liquefied Natural Gas Storage | 0.20 | 0.00 | 0.20 | 0.00% |
| Telecommunication | 0 | 0.00 | 0.00 | 0.00% |
| Others | 4.67 | 1.92 | 6.59 | 0.03% |
| Water Sanitation | 0.49 | 0.00 | 0.49 | 0.00% |

| | | | | |
|---|---|---|---|---|
| Others | 4.18 | 1.92 | 6.10 | 0.03% |
| Other Industries | **849.56** | **120.50** | **970.06** | **4.19%** |
| All Industries | **5870.85** | **1227.02** | **7097.87** | **30.65%** |
| Residuary Other Advances | **11094.32** | **4966.01** | **16060.33** | **69.35%** |
| of which - Education Loan | *154.75* | *0.00* | 154.75 | 0.67% |
| - Aviation Sector | *0.00* | *0.00* | 0.00 | 0.00% |
| -Other Residuary Advances | *10939.54* | *4966.01* | 15905.55 | 68.68% |
| Total Loans & Advances | **16965.14** | **6193.03** | **23158.17** | **100.00%** |

The details of the industries wherein the bank's exposure in the related industry has exceeded the 5% of total gross credit exposure as on 30.06.2014 is furnished below:

| Sl.No. | Industry classification | Percentage to the total credit exposure |
|---|---|---|
| 1. | Textile Industry | 10.09% |

**d. Residual Contractual Maturity Breakdown of assets as on 30.06.2014**

**(₹ in crore)**

| **Maturity Buckets** | **Cash and Balance with RBI** | **Balance with Banks and Money at Call and Short Notice** | **Investments** | **Advances** | **Fixed Assets** | **Other Assets** | **Grand Total** |
|---|---|---|---|---|---|---|---|
| Next day | 219.97 | 57.92 | 46.67 | 1137.05 | 0.00 | 121.04 | 1582.65 |
| 2-7 days | 21.49 | 224.74 | 169.53 | 161.83 | 0.00 | 19.26 | 596.85 |
| 8-14 days | 24.50 | 50.00 | 340.56 | 237.63 | 0.00 | 45.45 | 698.14 |
| 15-28 days | 16.54 | 100.00 | 104.32 | 354.26 | 0.00 | 20.73 | 595.85 |
| 29 days to 3 months | 78.68 | 160.00 | 722.62 | 1649.77 | 0.00 | 55.04 | 2666.11 |
| 3 to 6 months | 58.07 | 25.00 | 469.86 | 2290.91 | 0.00 | 55.69 | 2899.53 |
| 6 to 1 year | 208.41 | 0.00 | 1537.57 | 4506.06 | 0.00 | 7.41 | 6259.45 |
| 1 year to 3 years | 366.54 | 1.00 | 2953.84 | 3852.13 | 0.00 | 14.54 | 7188.05 |
| 3 to 5 years | 37.98 | 0.00 | 311.50 | 1436.58 | 0.00 | 504.39 | 2290.45 |
| Above 5 years | 38.65 | 0.00 | 440.94 | 1142.23 | 125.13 | 205.09 | 1952.04 |
| Total | 1070.83 | 618.66 | 7097.41* | 16768.45* | 125.13 | 1048.64 | 26729.12 |

**(Covers Net Assets for Domestic Operations)**
* **Net of provisions**

e. **Amount of Gross Non-Performing Advances (NPAs)**:

(₹ in Crore)

| | |
|---|---|
| Amount of NPAs (Gross) | 381.84 |
| • Substandard | 215.89 |
| • Doubtful | 94.03 |
| • Of which DF1 | 32.55 |
| • DF2 | 51.94 |
| • Df3 | 9.54 |
| • Loss | 71.92 |
| **f. Net NPAs** | 161.57 |
| **g. NPA Ratios** | |
| • Gross NPAs to gross advances | 2.25 |
| • Net NPAs to net advances | 0.97 |

h. **Movement of NPAs and its Provisions**:

(₹ in Crore)

| | |
|---|---|
| Movement of NPAs (Gross) | |
| • Opening Balance | 428.02 |
| • Additions | 118.86 |
| • Reductions | 165.04 |
| • Closing Balance | 381.84 |

**i. Movement of provisions for NPAs:**

| | |
|---|---|
| Movement of provisions for NPAs | |
| • Opening Balance | 194.69 |
| • Provisions made during the period | 47.43 |
| • Write off | - |
| • Reductions | 45.86 |
| • Write back of excess provisions / Transfers | - |
| • Closing Balance | 196.26 |

**Non-Performing Investments (NPIs):**

(₹ in Crore)

| | |
|---|---|
| **k. Non-Performing Investments** | 0.06 |
| **l. Provisions held for non-performing investments** | 0.06 |

**m. Movement of provisions for depreciation on investments:**

(₹ in Crore)

| | |
|---|---|
| • Opening Balance | 9.48 |
| • Provisions made during the period | 0.87 |
| • Write-off | - |
| • Write-back of excess provisions | - |
| • Closing Balance | 10.35 |

## Table DF – 4

## CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDISED APPROACH

### Qualitative disclosures:

### a) General Principle:

In accordance with RBI guidelines, the Bank had adopted Standardized Approach of the New Capital Adequacy Framework (NCAF) for computation of capital for Credit Risk with effect from 31.03.2009. In computation of capital, the bank has assigned risk weights to different assets classified as prescribed by the RBI.

### External Credit Ratings:

Ratings of borrowers by External Credit Assessment Institutions (ECAI) assume importance in the light of guideline for implementation of the New Capital Adequacy Framework (Basel-II). Exposures on Corporate / PSEs / Primary Dealers are assigned with risk weights based on the external ratings. For this purpose, the Reserve Bank of India has permitted Banks to use the rating of the six domestic ECAIs namely (a) Credit Analysis and Research Ltd., (CARE), (b) CRISIL Ltd., (c) India Ratings and Research P. Ltd., (India Ratings)., (d) ICRA Ltd., (e) Brickwork Ratings India P. Ltd (Brickwork) and (f) SMERA Rating Limited (SMERA). In consideration of the above guidelines the bank has decided to accept the ratings assigned by all these ECAIs.

In case of bank's investment in particular issues of Corporate / PSEs, the issue specific rating of the approved ECAIs are reckoned and accordingly the risk weights have been applied after a corresponding mapping to rating scale provided.

As regards the coverage of exposures by external ratings as relevant for capital computation under Standardized Approach, the process is being popularized among the borrowers so as to take the benefit of capital relief available for better rating of its customers. At the same time, the Bank is well aware and prepared for the application of higher risk weight (100%) for the unrated exposures relating to all fresh sanctions or renewals in excess of the threshold limit prescribed by Reserve Bank of India. The Bank follows below mentioned procedures as laid down in the Basel II guidelines for usage of external ratings:

- Rating assigned by one rating agency is used for all the types of claims on the borrowing entity.
- Long term ratings are used for facilities with contractual maturity of one year & above.
- Short term ratings are generally applied for facilities with contractual maturity of less than one year.

**Quantitative Disclosures**

For exposure amounts after risk mitigation subject to the standardized approach, amount of a bank's outstanding (rated and unrated) in the following three major risk buckets as well as those that are deducted as per risk mitigation are given below;

**(₹ in crore)**

| Risk Weight | Rated | Unrated | Total * |
|---|---|---|---|
| Below 100% | 287.85 | 10099.04 | 10386.89 |
| 100% | 292.20 | 4211.13 | 4503.33 |
| More than 100% | 1620.21 | 5044.72 | 6664.93 |
| Total Outstanding after mitigation | 2200.26 | 19354.89 | 21555.15 |
| Deducted (as per Risk Mitigation) | 53.48 | 4920.93 | 4974.41 |
| Total outstanding | **2253.74** | **24275.82** | **26529.56** |

* This includes total gross credit exposure i.e. (FB+ NFB+ undrawn or partially undrawn fund based facility)

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