

BASEL III - Pillar 3 DISCLOSURES OF TAMILNAD MERCANTILE BANK LTD.
As on 31st December 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 Framework 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		1360.40
	• Securitisation exposures		Nil
b)	Capital requirements for Market Risk:		
	• Standardised Duration Approach		73.37
	○ Interest Rate Risk	69.24	
	○ Foreign Exchange Risk	2.70	
	○ Equity Risk	1.43	

c)	Capital requirements for Operational Risk:		
	• Basic Indicator Approach		152.71
	Total Capital required @9%		1586.48
d)	Total Capital funds available		2337.63
	Total Risk Weighted Assets		17627.53
	Common Equity Tier I CRAR		12.65%
	Tier I CRAR		12.65%
	Tier II CRAR		0.61%
	Total CRAR		13.26%

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, Policy on valuation of properties and Empanelment of valuers, 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.

Classification of Non Performing Assets

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	18067.49
	NFB	7770.49

b. Geographical Distribution of Exposures:

. Geographical Region	Domestic		Overseas		Total
	FB	NFB	FB	NFB	
Northern	472.11	151.43	-	-	623.54
Southern	14568.92	6814.66	-	-	21383.58
Eastern	532.11	85.98	-	-	618.09
Western	2494.35	718.42	-	-	3212.77
Total	18067.49	7770.49	-	-	25837.98

c. Industry type distribution of credit outstanding as on 31.12.2014 – Fund based and Non-fund based:

Industry Name	Outstanding			% to total credit outstanding
	FB	NFB	Total	
Mining and Quarrying (incl. Coal)	74.84	23.23	98.07	0.38%
Coal	59.37	10.60	69.97	0.27%
Mining	15.47	12.63	28.10	0.11%
Food Processing	715.86	363.73	1079.59	4.18%
Sugar	38.38	0.35	38.73	0.15%
Edible Oils and Vanaspathi	57.32	314.37	371.69	1.44%
Tea	1.21	0.00	1.21	0.00%
Coffee	19.50	3.64	23.14	0.09%
Others	599.45	45.37	644.82	2.50%
Beverage & Tobacco	19.30	2.18	21.48	0.08%
Tobacco and tobacco products	0.53	1.02	1.55	0.00%
Others	18.77	1.16	19.93	0.08%
Textiles	2130.28	346.66	2476.94	9.59%
Cotton Textiles	253.40	64.93	318.33	1.23%
Jute Textiles	1.75	0.00	1.75	0.01%
Man-Made Textiles(handicraft/Khadi)	1.36	0.00	1.36	0.00%
Silk	6.74	0.00	6.74	0.03%
Woolen	2.30	0.00	2.30	0.01%
Other Textiles	1864.73	281.73	2146.46	8.31%
<i>Out of total textiles to Spinning mills</i>	<i>920.01</i>	<i>73.37</i>	<i>993.38</i>	<i>3.84%</i>
Leather & Leather Products	7.21	1.22	8.43	0.03%
Wood and Wood Products	91.76	131.82	223.58	0.87%
Paper & Paper Products	185.21	12.53	207.74	0.80%
Petroleum, Coal Products and Nuclear Fuels	1.38	2.75	4.13	0.02%

Chemicals and Chemical Products	127.93	31.05	158.98	0.62%
Fertilizer	7.05	0.05	7.10	0.04%
Drugs & Pharmaceuticals	16.61	4.75	21.36	0.08%
Petro Chemicals	1.24	0.02	1.26	0.00%
Others	103.03	26.23	129.26	0.50%
Rubber, Plastic & their Products	72.41	72.07	144.48	0.56%
Glass and Glass Ware	0.43	0.00	0.43	0.00%
Cement and Cement Products	2.63	0.00	2.63	0.01%
Basic Metal and Metal Products	427.79	120.73	548.52	2.12%
Iron and Steel	302.35	12.63	314.98	1.22%
Other Metal and Metal Products	125.43	108.10	233.53	0.90%
All Engineering	267.78	13.10	280.88	1.09%
Electronics	43.94	2.31	46.25	0.18%
Others	223.84	10.79	234.63	0.91%
Vehicles, Vehicle Parts and Transport Equipments	7.24	2.27	9.51	0.04%
Gems & Jewellery	23.26	0.00	23.26	0.09%
Construction	11.81	15.36	27.17	0.11%
Infrastructure	650.99	123.83	774.82	3.00%
Transport	1.25	97.55	98.80	0.38%
Railways	0.00	0.00	0.00	0.00%
<i>Roadways</i>	<i>1.24</i>	<i>97.55</i>	<i>98.79</i>	<i>0.38%</i>
Airport	0.00	0.00	0.00	0.00%
Waterways	0.00	0.00	0.00	0.00%
Others	0.01	0.00	0.01	0.00%
Energy	448.70	24.56	473.26	1.83%
<i>Electricity (generation-transportation & distribution)</i>	<i>448.70</i>	<i>24.56</i>	<i>473.26</i>	<i>1.83%</i>
State Electricity Boards	0.00	0.00	0.00	0.00%
Others	448.70	24.56	473.26	1.83%
Oil/Gas/Liquefied Natural Gas Storage	0.00	0.00	0.00	0.00%
Telecommunication	200.10	0.00	200.10	0.77%
Others	0.94	1.72	2.66	0.01%
Water Sanitation	0.59	0.00	0.59	0.00%
Social & Commercial Infrastructure	0.35	0.00	0.35	0.00%
Others	0.00	1.72%	1.72%	0.01%
Other Industries	859.26	82.21	941.47	3.64%
All Industries	5687.37	1344.74	7032.11	27.22%
Residuary Other Advances	12380.12	6425.75	18805.87	72.78%
of which - Education Loan	<i>161.89</i>	<i>0.00</i>	<i>161.89</i>	<i>0.62%</i>
- Aviation Sector	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00%</i>
-Other Residuary Advances	<i>12218.23</i>	<i>6425.75</i>	<i>18643.98</i>	<i>72.16%</i>
Total Loans & Advances	18067.49	7770.49	25837.98	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 31.12.2014 is furnished below:

Sl.No.	Industry classification	Percentage to the total credit exposure
1.	Textile Industry	9.59%

d. Residual Contractual Maturity Breakdown of assets as on 31.12.2014

(₹ 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	183.43	190.39	57.41	474.95	0.00	78.87	985.05
2-7 days	12.25	100.00	164.33	265.31	0.00	39.41	581.30
8-14 days	16.44	100.00	140.56	318.18	0.00	17.54	592.72
15-28 days	9.16	60.00	107.29	646.81	0.00	22.18	845.44
29 days to 3 months	102.74	0.00	1284.70	1317.30	0.00	63.80	2768.54
3 to 6 months	57.91	0.00	504.65	966.18	0.00	57.13	1585.87
6 to 1 year	288.40	0.00	1691.03	1991.39	0.00	88.46	4059.28
1 year to 3 years	364.13	1.00	2727.22	8831.31	0.00	14.32	11937.98
3 to 5 years	58.73	0.00	460.33	1672.71	0.00	576.16	2767.93
Above 5 years	41.97	0.00	507.76	1319.26	124.53	133.61	2127.13
Total	1135.16	451.39	7645.28*	17803.40*	124.53	1091.48	28251.24

(Covers Net Assets for Domestic Operations)

* Net of provisions

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

(₹ in Crore)

Amount of NPAs (Gross)	384.29
• Substandard	179.09
• Doubtful	143.85
• Of which DF1	51.98
• DF2	64.13
• Df3	27.74

• Loss	61.35
f. Net NPAs	148.04
g. NPA Ratios	
• Gross NPAs to gross advances	2.13
• Net NPAs to net advances	0.83

h. Movement of NPAs and its Provisions:

(₹ in Crore)

Movement of NPAs (Gross)	
• Opening Balance	387.39
• Additions	65.81
• Reductions	68.91
• Closing Balance	384.29

i. Movement of provisions for NPAs:

Movement of provisions for NPAs	
• Opening Balance	209.44
• Provisions made during the period	34.08
• Write off	-
• Reductions	31.17
• Write back of excess provisions / Transfers	-
• Closing Balance	212.35

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	10.61
• Provisions made during the period	0.00
• Write-off	-
• Write-back of excess provisions	-
• Closing Balance	10.61

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 ECAs 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 ECAs.

In case of bank's investment in particular issues of Corporate / PSEs, the issue specific rating of the approved ECAs 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%	238.87	10137.39	10376.26
100%	565.63	9608.38	10174.01
More than 100%	2378.51	1904.88	4283.39
Total Outstanding after mitigation	3183.01	21650.65	24833.66
Deducted (as per Risk Mitigation)	460.93	4092.39	4553.32
Total outstanding	3643.94	25743.04	29386.98

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