

Basel III - Pillar 3 Disclosures

1. Scope of Application and Capital Adequacy

Table DF-1

Scope of application

Name of the head of the banking group to which the framework applies:- **Tamilnad Mercantile Bank Ltd.,**

Qualitative Disclosures	Applicability to our Bank
a. List of Group entities considered for consolidation.	The Bank does not belong to any group
b. List of Group entities not considered for consolidation both under the accounting and regulatory scope of consolidation.	Not Applicable
Quantitative Disclosures	
c. List of group entities considered for consolidation	Not Applicable
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 and the name(s) of such subsidiaries.	Not Applicable
e. The aggregate amounts (e.g. Current book value) of the bank's total interests in insurance entities, which are risk-weighted.	Not Applicable
f. Any restriction or impediments on transfer of funds or regulatory capital within the banking group.	Not Applicable

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.

In computation of Capital for credit risk under Standardized Approach, the Bank has relied upon the Borrower wise data captured from each individual branch. For this purpose, our Information Technology Department has provided one report in finacle where the required particulars as per Basel norms were extracted at HO level directly from Core Banking Solution. The various aspects of Basel III norms are imparted to field level staff regularly through circulars and letters for continuous purification of data.

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 have been 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, risk weighted assets and 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. As regards the adequacy of capital to support the future activities, the bank has drawn an assessment of capital requirement for five years with the approval of the Board. The surplus CRAR acts as a buffer to support the future activities. Moreover, the headroom available for the bank for mobilizing Tier 1 and Tier 2 capital shall additionally support capital structure 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, Reserve & Surpluses and retained earnings.

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. 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.

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 (other than capital conservation buffer and countercyclical capital buffer etc.) Besides this minimum capital requirement, Basel III also provides for creation of capital conservation buffer (CCB). The CCB requirements are to be implemented from March 31, 2015 in phases and are to be fully implemented by March 31, 2018 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 11.5% of Risk Weighted Assets (9% + 2.5%) by March 2018 with the phase in requirements under CCB from 2015.

- 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%

Quantitative Disclosure

(₹ in crore)			
a)	Capital requirement for Credit Risk: (@9% on risk Weighted Assets)		
	• Portfolios subject to Standardised Approach		1082.51
	• Securitisation exposures		Nil
b)	Capital requirements for Market Risk:		
	• Standardised Duration Approach		21.16
	○ Interest Rate Risk	17.17	
	○ Foreign Exchange Risk	2.70	
	○ Equity Risk	1.29	
c)	Capital requirements for Operational Risk:		
	• Basic Indicator Approach		134.40
	Total Capital required @9%		1238.07
d)	Total Capital funds available		2057.95
	Total Risk Weighted Assets		13756.29
	Common Equity Tier I CRAR		14.36%
	Tier I CRAR		14.36%
	Tier II CRAR		0.60%
	Total CRAR		14.96%

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) assisted by Asset Liability Management Committee (ALCO) at senior management level.

The Bank has formulated the required policies such as Loan Policy, Credit Risk Management Policy, 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 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 additional risk sensitive rating models in-house during the year 2008-09 and 2009-10.

The internal rating factors takes 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.

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 Board. 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 Board 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.

Quantitative Disclosures	₹ in crore)	
	Applicability to our Bank	
b. Total gross credit risk exposures, Fund based and Non-Fund based separately	FB NFB	16318.48 8915.79
c. Geographic distribution of exposures, Fund based and Non-Fund based separately	FB	NFB
• Domestic	16318.48	8915.79
• Overseas	-	-
d. Industry type distribution of exposures, fund based and non-fund based separately.	Annexed	
e. Residual contractual maturity breakdown of assets	Annexed	
f. Amount of NPAs (Gross)		
• Substandard	167.60	
• Doubtful	114.27	
• Of which DF1	80.15	
• DF2	26.12	
• Df3	8.00	
• Loss	33.47	
g. Net NPAs	158.58	
h. NPA Ratios		
• Gross NPAs to gross advances	1.93	
• Net NPAs to net advances	0.98	
i. Movement of NPAs (Gross)		
• Opening Balance	214.45	
• Additions	290.49	
• Reductions	189.60	
• Closing Balance	315.34	
j. Movement of provisions for NPAs		
• Opening Balance	107.37	
• Provisions made during the period	100.20	
• Write off	-	
• Reductions	51.21	
• Write back of excess provisions / Transfers	-	
• Closing Balance	156.36	
k. Amount of Non-Performing investments	0.06	
l. Amount of provisions held for non-performing investments	0.06	
m. Movement of provisions for depreciation on investments		
• Opening Balance	9.06	
• Provisions made during the period	4.93	
• Write-off	-	

• Write-back of excess provisions	2.60
• Closing Balance	11.38

Residual Contractual Maturity Breakdown of assets

(₹ in crore)

Day1	2-7D	8-14D	15-28D	29D-3M	3-6M	6M-1 Year	>1 to 3 Years	>3 to 5 Years	>5 Years
1369.89	344.24	371.50	649.51	2755.33	3987.64	5334.08	5912.13	2335.03	1864.9

(Covers Gross Assets for Domestic Operations)

INDUSTRY WISE CREDIT EXPOSURES as on 30.09.2013

(₹ in crore)

Industry Name	Outstanding
Mining and Quarrying (incl. Coal)	77.09
Coal	52.95
Others	24.14
Food Processing	500.65
Sugar	42.15
Edible Oils and Vanaspathi	57.90
Tea	0.00
Others	400.60
Beverage & Tobacco	20.23
Textiles	1811.96
Cotton Textiles	202.19
Jute Textiles	2.11
Man-Made Textiles(handicraft/Khadi)	0.90
Silk	0.00
Woolen	0.00
Other Textiles	1606.76
Out of total textiles to Spinning mills	786.67
Leather & Leather Products	10.43
Wood and Wood Products	66.53
Paper & Paper Products	130.77
Petroleum, Coal Products and Nuclear Fuels	0.16
Chemicals and Chemical Products	134.85
Fertilizer	3.24
Drugs & Pharmaceuticals	9.57
Petro Chemicals	0.96
Others	121.08
Rubber, Plastic & their Products	51.97
Glass and Glass Ware	0.06
Cement and Cement Products	4.04
Basic Metal and Metal Products	344.59
Iron and Steel	256.46

Other Metal and Metal Products	88.13
All Engineering	173.69
Electronics	33.66
Others	140.03
Vehicles, Vehicle Parts and Transport Equipments	8.69
Gems & Jewellery	15.18
Construction	0.00
Infrastructure	1127.46
Transport	318.07
Railways	0.00
Roadways	318.07
Airport	0.00
Waterways	0.00
Others	0.00
Energy	809.30
Electricity (generation-transportation & distribution)	809.30
Telecommunication	0.09
Other Industries	867.73
All Industries	5346.08
Residuary Other Advances	10972.40
Total Loans & Advances	16318.48

The following industry is having exposure more than 5% of gross credit exposure as on 30.09.2013.

1. Textile Industry - 7.18%

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 Rating Agencies (ECRA) 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 ECRAs 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 ECRAs.

The bank has well-structured internal credit rating mechanism to evaluate the credit risk associated with a borrower and accordingly the systems are in place for taking credit decisions as regards to acceptability of proposals, and level of exposures and pricing.

In case of bank's investment in particular issues of Corporate / PSEs, the issue specific rating of the approved ECRAs 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 need to be popularized among the borrowers so as to take the benefit of capital relief available for better rating of its customers. This will take some time. 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 outstandings (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%	198.76	11558.81	11757.57
100%	593.84	4620.09	5213.93
More than 100%	1247.90	1442.26	2690.16
Total Outstanding after mitigation	2040.50	17621.15	19661.66
Deducted (as per Risk Mitigation)	670.59	4902.03	5572.62
Total outstanding	2711.09	22523.19	25234.28

Table DF – 5

CREDIT RISK MITIGATION: DISCLOSURE FOR STANDARDISED APPROACHES

Qualitative disclosures:

Policy on Credit Risk Mitigation under Standardized Approach:

As advised by RBI, the Bank has adopted the comprehensive approach relating to credit risk mitigation under Standardized Approach, which allows fuller offset of securities (primary and collateral) against exposures, by effectively reducing the exposure amount by the value ascribed to the securities. Thus the eligible financial collaterals are fully made use of to reduce the credit exposure in computation of credit risk capital. In doing so, the bank has recognized specific securities namely (a) bank's own deposits (b) Gold/Ornaments (c) Life Insurance Policies (d) Government Securities and (e) Units of Mutual Funds, in line with the RBI guidelines on the matter.

Besides, other approved forms of credit risk mitigation are "On Balance Sheet netting" and availability of "Eligible Guarantees". On balance sheet nettings has been reckoned to the extent of the deposits available against the loans /advances of the borrower (to the extent of exposure) as per the RBI guidelines. Further, in computation of credit risk capital, the types of guarantees recognized for taking mitigation, in line with RBI guidelines are (a) Central Government Guarantee (0%) (b) State Government (20%) (c) CGTSI (0%) (d) ECGC (20%) (e) Bank Guarantee in the form of bills purchased / discounted under Letter of credit (20%) and (f) CRGFTLIH (0%). The Bank has ensured compliance of legal certainty as prescribed by the RBI in the matter of credit risk mitigation.

Concentration Risk in Credit Risk Mitigation:

All types of securities eligible for mitigation are easily realizable financial securities. As such, presently no limit/ceiling has been prescribed to address the concentration risk in credit risk mitigants recognized by the Bank.

Quantitative Disclosures:

(₹ in crore)

a. For each separately disclosed credit risk portfolio, the total exposure (after, where applicable, on-or off balance sheet netting) that is covered by eligible financial collateral (FCs) after the application of haircuts is given below:		
Portfolio category	Financial collateral	Quantum of exposure covered
1. Funded - Credit	Bank's own deposits	736.81
2. Funded – Credit	Gold jewels	3385.60
3. Funded - Credit	LIC	14.12
4. Non Funded	Bank's own deposits	1436.09
b. For each separately disclosed portfolio, the total exposure (after, on balance sheet netting) that is covered by Guarantees:		
1. Funded - Credit	ECGC	142.54
2. Funded – Credit	CGTSI	35.91

Table DF - 6

Securitization: Disclosure for standardized approach

Qualitative Disclosures

The bank has not undertaken any securitization activity.

Quantitative Disclosures: NIL

Table DF-7

MARKET RISK IN TRADING BOOK

Qualitative Disclosures:

a) Market Risk:

Market Risk is defined as the possibility of loss to a bank in on-balance sheet and off-balance sheet positions caused by the changes / movements in the market variables such as interest rates, foreign currency exchange rates, equity prices and commodity prices. Bank's exposure to market risk arises from domestic investments (interest related instruments and equities) in trading book (both AFS and HFT categories), the Foreign exchange positions (including open position in precious metals) and trading related derivatives. The objective of the market risk management is to minimize the impact of losses on earnings and equity capital arising from market risk.

Policies for management of Market Risk:

The bank has put in place Board approved Asset Liability Management (ALM) policy for effective management of market risk in the bank. The policy sets various risk limits for effective management of market risk and ensuring that the operations are in line with Bank's expectation of return to market risk through proper Asset Liability Management. The policy also deals with the reporting framework for effective monitoring of market risk.

The ALM policy specifically deals with liquidity risk management and interest rate risk management framework. As envisaged in the policy, Liquidity risk is managed through the mismatch analysis, based on residual maturity / behavioral pattern of assets and liabilities, on a daily basis based on best available data coverage, as prescribed by the RBI. The bank has put in place mechanism of short-term dynamic liquidity management and contingent funding plan. Prudential (tolerance) limits are prescribed for different residual maturity time buckets for efficient asset liability management. Liquidity profile of the bank is evaluated through various liquidity ratios. The bank has also drawn various contingent measures to deal with any kind of stress on liquidity position. Bank ensures adequate liquidity managed on a real time basis by Domestic Treasury through systematic and stable funds planning.

Interest Rate Risk is managed through use of GAP analysis of rate sensitive assets and liabilities and monitored through prudential (tolerance) limits prescribed. The bank has also put in place Duration Gap Analysis framework for management of interest rate risk. The bank estimates Earnings at Risk (EaR) and Modified Duration Gap (DGAP) periodically against adverse movement in interest rate (as prescribed in the Policy) for assessing the impact on Net Interest Income (NII) and Economic Value of Equity (EVE) with a view to optimize shareholder value.

The Asset-Liability Management Committee (ALCO) / Risk Management Committee of Board (RMCB) monitors adherence of prudential limits fixed by the bank and determines the strategy in the light of the market condition (current and expected) as articulated in the ALM policy.

Quantitative Disclosures:

b) In line with the RBI's guidelines, the bank has computed capital for market risk as per Standardized Duration Approach (SDA) framework for maintaining capital.

The Capital requirements for market risk in trading Book as on 30.09.2013

(₹ in crs)

• Interest Rate Risk	17.17
• Equity Position Risk	2.70
• Foreign Exchange Risk	1.29
Total	21.16

Table DF – 8

OPERATIONAL RISK

Qualitative Disclosures:

a) **Operational Risk:**

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputation risks.

Policies on management of Operational Risk:

The Bank has framed Operational Risk Management Policy duly approved by the Board. Other policies adopted by the Board which deal with management of Operational risk are (a) Information Systems Security Policy, (b) Foreign Currency Risk Management Policy (c) Policy document on Know Your Customers (KYC) and Anti Money Laundering (AML) Procedures (d) IT Business Continuity and Disaster Recovery Plan (IT BC-DRP).

The Operational Risk Management Policy adopted by the Bank outlines organization structure and detail processes for management of operational risk. The basic

objective of the policy is to closely integrate operational risk management system into the day-to-day risk management processes of the bank by clearly assigning roles for effectively identifying, assessing, monitoring and controlling / mitigating operational risk and by timely reporting of operational risk exposures, including material operational losses. Operational risks in the Bank are managed through comprehensive and well-articulated internal control frameworks.

Quantitative Disclosures:

b) In line with the final guidelines issued by RBI, our Bank has adopted the Basic Indicator Approach for computing capital for Operational Risk. As per the guidelines, the capital charge for Operational Risk is equal to the average over the previous three years (2010-11, 2011-12 & 2012-13) of 15% of positive annual Gross Income as defined by RBI. As per such estimate, the capital requirement for operational risk as on 30.09.2013 is ₹ 134.40 crore.

Table DF – 9

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Qualitative Disclosures:

a) Interest Rate Risk in the Banking Book:

Interest Rate Risk is the risk where changes in the market interest rates might affect a bank's financial condition. Changes in interest rates affect both the current earnings (earnings perspective) as also the net worth of the Bank (economic value perspective). The risk from earnings perspective can be measured as impact in the Net Interest Income (NII) or Net Interest Margin (NIM). Similarly, the risk from economic value perspective can be measured as drop in the Economic value of Equity (EVE).

The Bank identifies the risks associated with the changing interest rates on its on-balance sheet and off-balance sheet exposures in the banking book from a short term (Earning perspective) and long term (Economic value perspective). The impact on income (Earning perspective) is measured through use of Gap Analysis by applying notional rate shock upto 200 bps as prescribed in Bank's ALM policy. Prudential limits have been prescribed for such impacts as a percentage to NII of the Bank and the same is monitored periodically on a fortnightly basis. For the calculation of impact on earnings, the Traditional Gap is taken from the Rate Sensitivity Statement and based on the remaining period from the mid point of a particular bucket the impact for change in interest rates upto 100 bps is arrived at. The same is reported to ALCO/Risk Management Committee of Board (RMCB) periodically along with the Rate Sensitivity statement on monthly basis. Such limits are fixed based on the previous year's NII.

The Bank has adopted Traditional Gap Analysis combined with Duration Gap Analysis for assessing the impact (as a percentage) on the Economic value of Equity (Economic Value Perspective) by applying a notional interest rate shock of 200 bps. As per the Guidelines on Banks' Asset Liability Management Framework-Interest

Rate Risk issued by the RBI (DBOD.No.BP.BC.59/21.04.098/2010-11 dated 04.11.2010), the Bank calculates Modified Duration Gap (DGAP) & the impact on the Economic Value of equity (EVE). Assets and Liabilities are grouped as per Rate Sensitivity Statement & bucket wise Modified Duration is computed for these groups of Assets (excluding investments) and Liabilities using common maturity, coupon and yield parameters. For investment portfolio, the Modified Duration of individual items are computed and taken. The DGAP is calculated by the Bank once in a month and is reported to ALCO/ Risk Management Committee of Board (RMCB).

The Asset-Liability Management Committee (ALCO) / Risk Management Committee of Board (RMCB) monitors adherence of prudential limits fixed by the bank and determines the strategy in the light of market conditions (current and expected).

Quantitative Disclosures:

The increase or decrease in earnings and economic value for upward and downward rate shocks based on the assets and liabilities outstanding as on 30.09.2013 are as follows.

1. The impact of change in Interest Rate i.e Earnings at Risk for 100 Basis points interest rate shock is ₹2.09 crore only as against the tolerance level fixed as 10% of the previous year NII of ₹859.53cr (i.e ₹85.95cr).
2. Change in Market Value of Equity for 200 basis points interest rate shock is 16.49% as against the tolerance level of 20%.

TABLE DF - 10

General disclosures for exposures related to counterparty credit risk

Counterparty Credit Risk (CCR) is the risk that a counter party to a transaction could default before the final settlement of the transaction cash flows. Unlike a firm'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, CCR creates a bilateral risk of loss to either parties.

Counterparty credit risk in case of derivative contracts arises from the forward contracts. The subsequent credit risk exposures depend on the value of underlying market factors (e.g., interest rates and foreign exchange rates), which can be volatile and uncertain in nature. The Bank does not enter into derivative transactions other than forward contracts.

Credit exposures on forward contracts

The Bank enters into the forward contracts in the normal course of business for proprietary trading and arbitrage purposes, as well as for our own risk management needs, including mitigation of interest rate and foreign currency risk. Derivative exposures are calculated according to the current exposures method.

Counterparty Credit exposure as on September 30, 2013

(Amount ₹ in Crs)

Nature	Notional Amount	Counterparty exposure	Potential Exposure @2%	Total credit exposure
Forward contracts	5927.70	3801.52	76.03	3877.55

In terms of RBI circular dated 28.03.2013, the credit valuation adjustment risk capital charge would be effective from 01.01.2014, and accordingly CVA risk capital charge has not been computed for the current quarter.

3. Composition of Capital Disclosure Templates

TABLE DF – 11
Composition of Capital

Part II: Template to be used before March 31, 2017 (ie., During the transition period of Basel III Regulatory adjustments)					
(₹ In Millions)					
Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2016)			Amounts Subject to Pre-Basel III Treatment	Ref No.	
Common Equity Tier 1 capital: instruments and reserves					
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	2.85			
2	Retained earnings				
3	Accumulated other comprehensive income (and other reserves)	19934.97			
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies ¹)				
	Public sector capital injections grandfathered until January 1, 2018				
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)				
6	Common Equity Tier 1 capital before regulatory adjustments	19937.82			
Common Equity Tier 1 capital : Regulatory adjustments					
7	Prudential valuation adjustments				
8	Goodwill (net of related tax liability)				
9	Intangibles other than mortgage-servicing rights (net of related tax liability)				
10	Deferred tax assets ²	180.82			
11	Cash-flow hedge reserve				
12	Shortfall of provisions to expected losses				
13	Securitisation gain on sale				
14	Gains and losses due to changes in own credit risk on fair valued liabilities				
15	Defined-benefit pension fund net assets				
16	Investments in own shares (if not already netted off paid-up capital on reported balance sheet)				
17	Reciprocal cross-holdings in common equity				

18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)			
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) ³			
20	Mortgage servicing rights ⁴ (amount above 10% threshold)			
21	Deferred tax assets arising from temporary differences ⁵ (amount above 10% threshold, net of related tax liability)			
22	Amount exceeding the 15% threshold ⁶			
23	of which : significant investments in the common stock of financial entities			
24	of which : mortgage servicing rights			
25	of which : deferred tax assets arising from temporary differences			
26	National specific regulatory adjustments ⁷ (26a+26b+26c+26d)			
26a	of which : Investments in the equity capital of unconsolidated insurance subsidiaries			
26b	of which : Investments in the equity capital of unconsolidated non-financial subsidiaries ⁸			
26c	of which : Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank ⁹			
26d	of which : Unamortised pension funds expenditures			
	Regulatory Adjustments Applied to Common Equity Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment			
	of which : [INSERT TYPE OF ADJUSTMENT] For example: filtering out of unrealised losses on AFS debt securities (not relevant in Indian context)			
	of which : [INSERT TYPE OF ADJUSTMENT]			
	of which : [INSERT TYPE OF ADJUSTMENT]			
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions			
28	Total regulatory adjustments to Common equity Tier 1	180.82		
29	Common Equity Tier 1 capital (CET1)	19757.00		
Additional Tier 1 capital : instruments				
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (share premium) (31+32)			
31	of which : classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)			
32	of which : classified as liabilities under applicable accounting standards (Perpetual debt Instruments)			
33	Directly issued capital instruments subject to phase out from Additional Tier 1			
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount			
35	of which : instruments issued by subsidiaries subject to phase out			
36	Additional Tier 1 capital before regulatory adjustments			
Additional Tier 1 capital: regulatory adjustments				
37	Investments in own Additional Tier 1 instruments			
38	Reciprocal cross-holdings in Additional Tier 1 instruments			

39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)			
40	Significant investments in the capital of banking, financial and			
41	National specific regulatory adjustments (41a+41b)			
41a	Investments in the Additional Tier 1 capital of unconsolidated			
41b	Shortfall in the Additional Tier 1 capital of majority owned financial			
	Regulatory Adjustments Applied to Additional Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment			
	of which : [INSERT TYPE OF ADJUSTMENT e.g. DTAs]			
	of which : [INSERT TYPE OF ADJUSTMENT e.g. existing			
	of which : [INSERT TYPE OF ADJUSTMENT]			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient			
43	Total regulatory adjustments to Additional Tier 1 capital			
44	Additional Tier 1 capital (AT1)			
44a	Additional Tier 1 capital reckoned for capital adequacy ¹¹			
45	Tier 1 capital (T1 = CET1 + Admissible AT1) (29 + 44a)	19757.00		
Tier 2 capital : instruments and provisions				
46	Directly issued qualifying Tier 2 instruments plus related stock			
47	Directly issued capital instruments subject to phase out from Tier 2			
48	Tier 2 instruments (and CET1 and AT1 instruments not included in			
49	of which : instruments issued by subsidiaries subject to phase out			
50	Provisions ¹² include the following a) Investment Reserve ₹ 177.20 mn b) Provision for Standard Asset ₹ 645.34 mn	822.54		
51	Tier 2 capital before regulatory adjustments	822.54		
Tier 2 capital: regulatory adjustments				
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 instruments			
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10%			
55	Significant investments ¹³ in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
56	National specific regulatory adjustments (56a+56b)			
56a	of which : Investments in the Tier 2 capital of unconsolidated insurance subsidiaries			
56b	of which : Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the bank			
	Regulatory Adjustments Applied To Tier 2 in respect of Amounts Subject to Pre-Basel III Treatment			
	of which : [INSERT TYPE OF ADJUSTMENT e.g. existing adjustments which are deducted from Tier 2 at 50%]			
	of which : [INSERT TYPE OF ADJUSTMENT]			
57	Total regulatory adjustments to Tier 2 capital			
58	Tier 2 capital (T2)	822.54		
58a	Tier 2 capital reckoned for capital adequacy ¹⁴	822.54		
58b	Excess Additional Tier 1 capital reckoned as Tier 2 capital			

58c	Total Tier 2 capital admissible for capital adequacy (58a + 58b)	822.54		
59	Total capital (TC = T1 + Admissible T2) (45 + 58c)	20579.54		
	Risk Weighted Assets in respect of Amounts Subject to Pre-Basel III Treatment			
	of which : [INSERT TYPE OF ADJUSTMENT]			
	of which : ...			
60	Total risk weighted assets (60a + 60b + 60c)	137562.96		
60a	of which : total credit risk weighted assets	120278.51		
60b	of which : total market risk weighted assets	2351.12		
60c	of which : total operational risk weighted assets	14933.33		
Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.36%		
62	Tier 1 (as a percentage of risk weighted assets)	14.36%		
63	Total capital (as a percentage of risk weighted assets)	14.96%		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)			
65	of which : capital conservation buffer requirement			
66	of which : bank specific countercyclical buffer requirement			
67	of which : G-SIB buffer requirement			
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	NA		
National minima (if different from Basel III)				
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	5.50%		
70	National Tier 1 minimum ratio (if different from Basel III minimum)	7.00%	6.00%	
71	National total capital minimum ratio (if different from Basel III minimum)	9.00%	9.00%	
Amounts below the thresholds for deduction (before risk weighting)				
72	Non-significant investments in the capital of other financial entities			
73	Significant investments in the common stock of financial entities			
74	Mortgage servicing rights (net of related tax liability)			
75	Deferred tax assets arising from temporary differences (net of related tax liability)			
Applicable caps on the inclusion of provisions in Tier 2				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)			
77	Cap on inclusion of provisions in Tier 2 under standardised approach			
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)			
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach			
Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements	NA		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			
82	Current cap on AT1 instruments subject to phase out arrangements			
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			
84	Current cap on T2 instruments subject to phase out arrangements			
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			

Notes to the template		
Row No. of the template	Particulars	(₹ in Millions)
10	Deferred tax assets associated with accumulated losses	
	Deferred tax assets (excluding those associated with accumulated losses) net of Deferred tax liability or Gross DTA	180.82
	Total as indicated in row 10	180.82
19	If investments in insurance subsidiaries are not deducted fully from capital and instead considered under 10% threshold for deduction, the resultant increase in the capital of bank	
	of which : Increase in Common Equity Tier 1 capital	
	of which : Increase in Additional Tier 1 capital	
	of which : Increase in Tier 2 capital	
26b	If investments in the equity capital of unconsolidated non-financial subsidiaries are not deducted and hence, risk weighted then :	
	(i) Increase in Common Equity Tier 1 capital	
	(ii) Increase in risk weighted assets	
44a	Excess Additional Tier 1 capital not reckoned for capital adequacy (difference between Additional Tier 1 capital as reported in row 44 and admissible Additional Tier 1 capital as reported in 44a)	
	of which : Excess Additional Tier 1 capital which is considered as Tier 2 capital under row 58b	
50	Eligible Provisions included in Tier 2 capital	822.54
	Eligible Revaluation Reserves included in Tier 2 capital	
	Total of row 50	822.54
58a	Excess Tier 2 capital not reckoned for capital adequacy (difference between Tier 2 capital as reported in row 58 and T2 as reported in 58a)	

Table DF-12:
Composition of Capital- Reconciliation Requirements

Step 1:

			(₹. in million)	
			Balance sheet as in financial statements	Balance sheet under regulatory scope of consolidation
			As on reporting date	As on reporting date
A	Capital & Liabilities			
	i.	Paid-up Capital	2.85	
		Reserves & Surplus	21926.67	
		Minority Interest		
		Total Capital	21929.52	
	ii.	Deposits	204139.60	
		of which : Deposits from banks	5590.00	
		of which : Customer deposits	198549.60	

		of which : Other deposits (pl. specify)		
	iii.	Borrowings	4742.44	
		of which : From RBI	2290.00	
		of which : From banks	2394.44	
		of which : From other institutions & agencies		
		of which : Others (pl. specify) Outside India	58.00	
		of which : Capital instruments	0.00	
	iv.	Other liabilities & provisions	18045.24	
		Total	248856.80	
	B	Assets		
	i.	Cash and balances with Reserve Bank of India	10413.44	
		Balance with banks and money at call and short notice	2947.56	
	ii.	Investments :	60843.90	
		of which : Government securities	56332.56	
		of which : Other approved securities		
		of which : Shares	71.51	
		of which : Debentures & Bonds	3724.07	
		of which : Subsidiaries / Joint Ventures / Associates		
		of which : Others (Commercial Papers, Mutual Funds etc.)	715.76	
	iii.	Loans and advances	161593.34	
		of which : Loans and advances to banks		
		of which : Loans and advances to customers	161593.34	
	iv.	Fixed assets	1060.23	
	v.	Other assets	11998.33	
		of which : Goodwill and intangible assets		
		of which : Deferred tax assets	180.82	
	vi.	Goodwill on consolidation		
	vii.	Debit balance in Profit & Loss account		
		Total Assets	248856.80	

Step 2:

- 1) As the Bank is not having any subsidiary, no disclosure relating any legal entity for regulatory consolidation is made.
- 2) The entire paid up capital of the Bank amounting to ₹2.85 million is included in CET I. (refer Item I of DF-11)
- 3) The break up for Reserves & Surplus ₹ 21926.67 mn as shown in the Bank's financial statements is given hereunder for the purpose of reconciliation for calculation of Regulatory Capital in DF-11

(₹ in Millions)

As per Balance Sheet	Amount	As shown in DF-11 Capital
a) Statutory Reserves	6745.29	Included in Regulatory CET I capital DF-11 (item-3)
b) Capital Reserves	51.76	Included in Regulatory CET I capital DF-11 (item-3)
c) Revenue and Other Reserves	12906.41	Included in Regulatory CET I capital DF-11 (item-3)
d) Investment reserve	177.20	Included in Regulatory Tier II capital DF-11 (item-50)

e) Special Reserve u/s 36(i) of IT Act 1961	326.00	Included in CET I less tax 105.76mn only. ₹220.24 mn taken for Regulatory Capital (DF11-item 3)
f) Balance in P&L upto 31.03.2013	11.27	Included in CET I (item 3- DF11)
g) Additional Balance of Profit (for 1 st half)	1708.74	Not included in capital funds for regulatory purposes.
	21926.67	

4) Other Liabilities – The following subheads are included in Other Liabilities in the Balance Sheet

a) Provision for Standard assets ₹645.34mn (item-50 - DF-11)

However they are shown under Tier II capital for computation of Regulatory Capital (DF-11) as noted in brackets as per extant RBI guidelines.

Step 3

Extract of Basel III common disclosure template (with added column) - Table DF-11 (Part I / Part II whichever, applicable)			
Common Equity Tier 1 capital: instruments and reserves			
		Component of regulatory capital reported by bank	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	2.85	2
2	Retained earnings		
3	Accumulated other comprehensive income (and other reserves)	19934.97	3 (a,b,c,e & f)
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory adjustments	19937.82	Total of 2 & 3(a,b,c,e & f)
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)		

**Table DF-13:
Main Features of Regulatory Capital Instruments**

Table DF-13 : Main Features of Regulatory Capital Instruments (Equity Shares & Bond Series I, II)				
Disclosure template for main features of Regulatory Capital Instruments				
	Description	Equity Shares	Series I	Series II
1	Issuer	The Bank has not issued any regulatory capital instruments		
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)			

3	Governing law(s) of the instrument			
	Regulatory treatment			
4	Transitional Basel III rules			
5	Post-transitional Basel III rules			
6	Eligible at solo / group / group & solo			
7	Instrument type			
8	Amount recognized in regulatory capital (Rs. in million, as of most recent reporting date)			
9	Par value of instrument			
10	Accounting classification			
11	Original date of issuance			
12	Perpetual or dated			
13	Original maturity date			
14	Issuer call subject to prior supervisory approval			
15	Optional call date, contingent call dates and redemption amount			
16	Subsequent call dates, if applicable			
	Coupons / dividends			
17	Fixed or floating dividend / coupon			
18	Coupon rate and any related index			
19	Existence of a dividend stopper			
20	Fully discretionary, partially discretionary or mandatory			
21	Existence of step up or other incentive to redeem			
22	Noncumulative or cumulative			
23	Convertible or non-convertible			
24	If convertible, conversion trigger(s)			
25	If convertible, fully or partially			
26	If convertible, conversion rate			
27	If convertible, mandatory or optional conversion			
28	If convertible, specify instrument type convertible into			
29	If convertible, specify issuer of instrument it converts into			

30	Write-down feature			
31	If write-down, write-down trigger(s)			
32	If write-down, full or partial			
33	If write-down, permanent or temporary			
34	If temporary write-down, description of write-up mechanism			
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to			
36	Non-compliant transitioned features			
37	If yes, specify non-compliant features			

Table DF-14
Full Terms and Conditions of Regulator Capital Instruments

The details of the Tier II capital [Bonds] used by the Bank

Table DF-14 : Full Terms and Conditions of Regulatory Capital Instruments	
Instruments	Full Terms and Conditions
	Not Applicable
	Not Applicable