PILLAR III DISCLOSURE REQUIREMENTS

1. Scope of Application and Capital Adequacy

Table DF 1 –SCOPE OF APPLICATION

Dhanlaxmi Bank is a Commercial Bank, which was incorporated on November 14, 1927 in Thrissur, Kerala. The Bank does not have any subsidiary/Associate companies under its Management.

TABLE DF 2- CAPITAL ADEQUACY

Qualitative disclosures:

Basel- III guidelines issued by RBI

Reserve Bank of India issued Guidelines based on the Basel III reforms on capital regulation in May 2012, to the extent applicable to Banks operating in India. The Basel III capital regulation has been implemented from April 1, 2013 in India in phases and it will be fully implemented as on March 31, 2019. The Basel III Capital Regulations have been consolidated in Master Circular – Basel III Capital Regulations.

Basel III Capital regulations continue to be based on three-mutually reinforcing pillars viz, minimum capital requirements, supervisory review of capital adequacy and market discipline of the Basel II capital adequacy framework. The circular also prescribes the risk weights for the balance sheet assets, non-funded items and other off-balance sheet exposures and the minimum capital funds to be maintained as ratio to the aggregate of the risk weighted assets (RWA) and other exposures, as also, capital requirements in the trading book, on an ongoing basis and operational risk. The Basel-III norms mainly seek to:

a) Raise the quality of capital to ensure that the Banks are capable to absorb losses on both as going concern and as gone concern basis,
b) Increase the risk coverage of the capital framework
c) Introduce leverage ratio to serve as a backstop to the risk-based capital measure
d) Raise the standards for the supervisory review process and public disclosures etc.

The macro prudential aspects of Basel III are largely enshrined in the capital buffers, viz., capital conservation buffer and countercyclical buffer. Both the buffers are intended to protect the Banking sector from stress situations and business cycles. The Capital Conservation Buffer requirements started from March 31, 2016 and are to be fully implemented by March 31, 2019. The Reserve Bank of India has released the final guidelines on implementation of Countercyclical Capital Buffer (CCCB) in India vide RBI/2014-15/452 DBR.No.BP.BC.71/21.06.201/2014-15 dated February 5, 2015. The CCCB shall increase gradually from 0 to 2.5 per cent of the RWA of the bank but the rate of increase would be different based on the level/position of credit-to-GDP gap between 3 and 15 percentage points, when notified.

a. **Summary**

(i) Tier I Capital : ***Tier I capital of the Bank includes***

- Equity Share Capital
- Reserves& Surpluses comprising of
  - Statutory Reserves,
  - Capital Reserves,
  - Share Premium and
  - Balance in P&L account
  - Revaluation Reserves
  - Special Reserves

(a) Common Equity Tier I

The Bank has authorized share capital of Rs.300 Cr. comprising 30 Cr. equity share of Rs.10/- each. As on 30th June 2016, the Bank has issued, subscribed and paid-up capital of Rs. 177,44,16,190/-, constituting 17,74,41,619 Equity Shares of Rs. 10/- each. The Bank's shares are listed on the National Stock Exchange of India Limited (NSE) and the Bombay Stock Exchange Limited (BSE) and Cochin Stock Exchange Limited (CSE)

(b) Additional Tier I Capital

As on June 30,2016 the Bank does not have Additional Tier I Capital.

(ii) Tier 2 Capital includes Standard Asset Provisions and Tier II Bonds.

Debt Capital Instruments:

The Bank has been raising capital funds by means of issuance of Upper Tier 2 and Subordinated bonds. The details of eligible Upper Tier 2 and Subordinated Debt (Unsecured Redeemable Non-convertible Subordinated Bonds in the nature of Promissory Notes/Debentures) issued by the Bank and outstanding as on June 30, 2016, are given below. The Bonds considered in computation of Tier 2 Capital is as per the criteria for inclusion of Debt Capital Instruments as Tier 2 Capital detailed in the Basel III Master Circular.

Rs. in Crores

Series	Coupon (%)	Date of Allotment	Maturity Date	Amount of Issue *
Upper Tier II Series I	Payable annually @ 10% for the first 10 years	28.07.2010	30.07.2025	27.50
Series IX	Payable annually @ 11%	20.01.2012	20.07.2018	10.00
Series X- A	Payable half yearly @ 11.90%	29.05.2012	29.04.2018	54.50
Series X- B	Payable half yearly @ 11.95%	29.05.2012	29.05.2019	14.20
Series XI-A	Payable half yearly @ 11.90%	03.08.2012	03.05.2018	29.30
Series XI-B	Payable half yearly @ 11.95%	03.08.2012	03.08.2019	3.70
Series XIII-B	Payable half yearly @ 11.95%	10.12.2012	10.12.2019	5.00

*Of this Rs.48.16 crore is eligible for Tier 2 Capital.

Quantitative Disclosures:

Risk exposure and assessment

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. Capital requirement for current business levels and framework for assessing capital requirement for future business levels has been made. Capital need and capital optimization are monitored periodically by the Committee of Top Executives. The Top Executives deliberate on various options available for capital augmentation in tune with business growth.

Composition of Capital as on 30.06.2016

Items	Rs. in million
Paid-up share capital	1774.42
Reserves	11044.32
Common Equity Tier 1 Capital before deductions	12818.74
Less amounts deducted from Tier I capital (accumulated losses, DTA and Intangible Assets).	8698.24
(a) Common Equity Tier 1 Capital	4120.49
(b) Additional Tier-I Capital	0.00
(c) Total Tier-I Capital (a+b)	4120.49
Directly issued Tier II capital instruments subject to phase out	481.60
General Provisions /Revaluation Reserves	226.09
(d) Total Tier-2 Capital	707.69
Total Eligible capital (c+ d)	4828.18

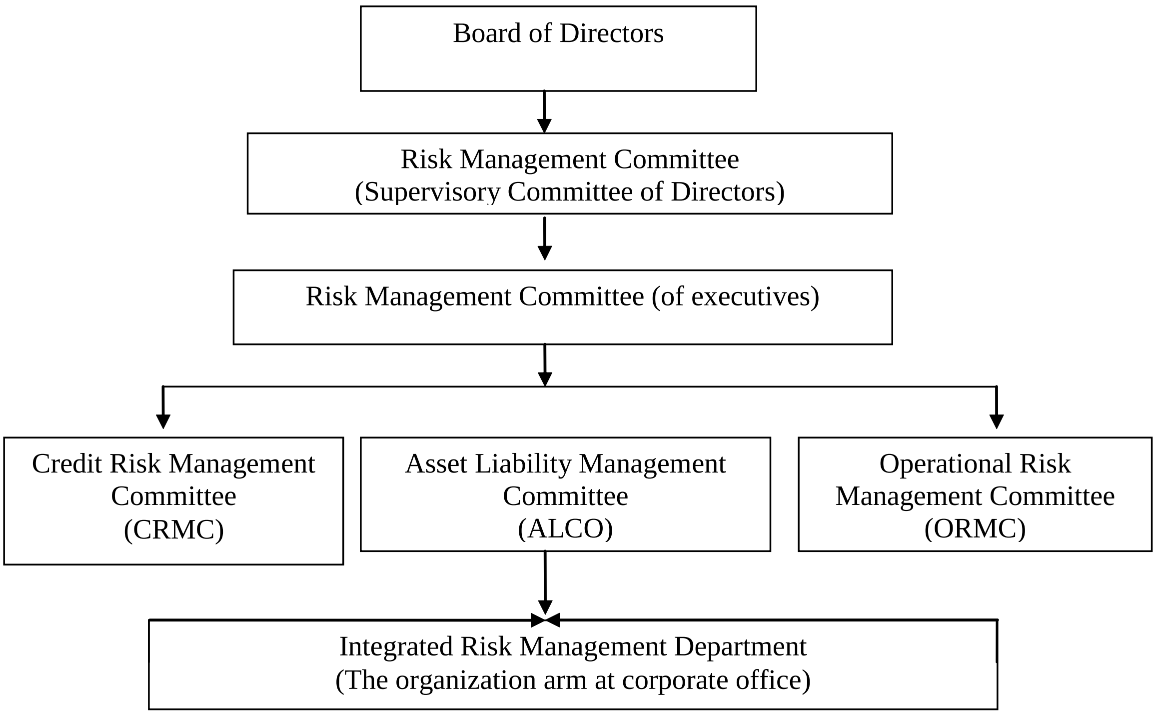
The Bank is following Standardized Approach, Standardized Duration Approach and Basic Indicator Approach for measurement of capital charge in respect of Credit Risk, Market Risk and Operational Risk respectively. The Capital requirements for Credit Risk; Capital requirements for Market Risk; Capital requirements for Operational Risk and the Common Equity Tier 1, Tier 2 and Total Capital Ratios are given below: -

Rs.in Crores

Items	30.06.2016
(b) Capital requirements for credit risk	
Portfolios subject to standardized approach (9.625%)	**493.65**
Securitization exposures	
(c) Capital requirements for market risk- Standardized duration approach	**52.93**
Interest rate risk	39.99
Foreign exchange risk(including gold)	2.25
Equity position risk	10.70

(d) Capital requirements for operational risk	**55.83**
Basic Indicator Approach	55.83
Total Capital Funds Required @9.625%	602.41
Total Capital Funds Available	482.82
Total Risk Weighted Assets	6488.32
(e) Common Equity Tier 1, Tier 2 and Total Capital Ratios	
Common Equity Tier 1 CRAR (%)	6.35%
Tier 2 CRAR (%)	1.09%
Total CRAR % for the Bank	**7.44%**

Structure and Organization of the Risk Management function in the Bank



Scope and Nature of Risk Reporting and/or Measurement Systems

The Bank has adopted an integrated approach for the management of risk. The Bank's Integrated Risk Management Department (IRMD) is the organizational arm for risk management functions. The Bank has developed a comprehensive risk rating system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. Major initiatives of IRMD are –

- ✓ Risk rating system is drawn up in a structured manner incorporating the parameters from the five main risk areas 1) Financial Risk, 2) Industry/Market Risk, 3) Business Risk, 4) Management Risk, and 5) Facility risk

- ✓ Risk rating system is made applicable for loan accounts with total limits of Rs.2 lakhs and above.
- ✓ Different rating models are used for different types of exposures, for e.g. Traders, SME, NBFC, Corporate, small loans, retail loans etc.
- ✓ IRMD validates the ratings of all exposures of Rs.100 lakhs and above.
- ✓ An independent analysis is carried out of the various risks attached to the credit proposals including industry analysis.
- ✓ Carries out rating migration analysis of the credit exposures of Rs.1 crore & above on a quarterly basis. Rating Migration analysis covering all exposures of Rs.25 lacs and above is conducted on an annual basis.
- ✓ Evaluates the asset quality by tracking the delinquencies and migration of borrower from one rating scale to another.

Credit facilities are sanctioned at various levels in accordance with the delegation approved by the Board. The Bank has in place the following hierarchical functionaries with powers delegated for credit sanction and administration:

- ➢ Branch Head with Branch Operational Manager jointly,
- ➢ Regional Credit Committee
- ➢ Corporate Credit Committee at Corporate Office level
- ➢ Management committee
- ➢ Board of Directors

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

The Bank has put in place a Board approved policy on Credit Risk Mitigation Techniques and Collateral Management, covering the credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes. Apart from the Basel defined collateral, the Bank ensures securities by way of inventories, Book Debts, plant & machineries, Land & Buildings and other moveable/immovable assets/properties. The Bank also accepts personal/corporate guarantee as an additional comfort for credit risk mitigation. The securities are subjected to proper valuation as prescribed in the Credit Policy of the Bank.

Bank has laid down detailed guidelines on documentation to ensure legal certainty of Bank's charge on collaterals. In order to ensure that documents are properly executed, the function has been brought under the purview of Credit Officers. The Credit Officers at branches ensure documentation, ground level follow up, collection of feedback, closer monitoring of accounts, quality of asset portfolios, statistical analyses, reporting of irregularities, providing guidelines, compliance with policy prescriptions and adherence to terms of sanction.

The Bank has an exclusive set up for Credit monitoring functions in order to have greater thrust on post sanction monitoring of loans and strengthen administering the various tools available under the Bank's policies on loan review mechanism. For effective loan review, the Bank has the following in place: -

- ➢ On site monitoring tools like Inspection of assets/ books/stock of the borrower, stock audit, operations in the account, payment of statutory dues etc.
- ➢ Recording of loan sanctioned by each sanctioning authority by the next higher authority.
- ➢ Off site monitoring tools like Financial Follow-up Reports, verification of various statutory returns, Audit Reports etc.

TABLE DF 3 –CREDIT RISK: GENERAL DISCLOSURES

Qualitative disclosures:

(a) General: -

Definitions of past due and impaired (for accounting purposes)

The Bank has adopted the definition of the past due and impaired (for accounting purposes) as defined by the Regulator for income recognition and asset classification norms which is furnished below:-

1. Non performing Assets

An asset, including a leased asset, becomes non performing when it ceases to generate income for the Bank. A non performing asset (NPA) is a loan or an advance where;

a) interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
b) the account remains 'out of order' as indicated at paragraph 2 below, in respect of an Overdraft/Cash Credit (OD/CC),
c) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
d) the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
e) the installment of principal or interest thereon remains overdue for one crop season for long duration crops,
f) the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated Feb 1 2006
g) in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

An account is classified as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

In addition, an account may also be classified as NPA in terms of any temporary deficiencies as defined by the Regulator.

2. 'Out of Order' status: An account is 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 are treated as **'out of order'**.

3. **'Overdue':** Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.

Strategies and Processes for Credit Risk Management

Credit Risk Management Committee (CRMC) headed by MD & CEO is the top level functional committee for Credit Risk. The committee considers and takes decisions necessary to manage and control credit risk within overall quantitative prudential limit set up by Board. The committee is entrusted with the job of recommending to the Board for its approval, clear policies on standards for presentation of credit proposal, fine-tuning required in various rating models based on feedbacks or change in market scenario, approval of any other action necessary to comply with requirements set forth in Credit Risk Management Policy/ RBI guidelines or otherwise required for managing credit risk. The Bank has implemented a software solution to get system support for calculation of Risk Weighted Assets for CRAR computation.

The Bank's strategies to manage the credit risks in its lending operations are as under:

a) The Bank has a Comprehensive Board Approved Credit Risk Management Policy which is reviewed and revised annually. In addition to the above, various strategies with regard to Credit risk management are covered under Bank's Credit Policy, Credit Monitoring Policy and Recovery Policy which are periodically reviewed by the Board.
b) Defined segment exposures delineated into Retail, SME and Corporates
c) Industry wise exposure caps on aggregate lending by Bank
d) Individual borrower wise caps on lending as well as borrower group wise lending caps linked as a percentage to the Bank's capital funds in line with RBI guidelines.
e) Credit rating of borrowers and allowing credit exposures only to defined thresholds of risk levels
f) A well defined approach to sourcing and preliminary due diligence while sourcing fresh credit accounts
g) A clear and well defined delegation of authority within the Bank in regard to decision making linking exposure, rating and transaction risks.
h) Regular review of all credit structures and caps, continuously strengthening credit processes, and monitoring oversight which are regularly reviewed and duly approved by the Board of the Bank.
i) Credit Risk Management Cell is validating the rating assigned to all individual credit exposures of Rs 100 Lakh and above.
j) Bank has an ever improving procedures and structures with respect to Credit Approval Process, Credit Rating, Prudential Limits, Documentation, Credit Monitoring and Review Mechanism.
a) Credit Audit System by Inspection Department has been put in place for all Rs.3 crore and above advances. All new sanctions/enhancements, excluding renewals, made in the quarter will be subjected to credit audit during the first month of succeeding quarter. All loans/advances of Rs.1 crore to Rs.3 crores shall be subjected to Credit audit by concerned Regional office, through another Branch Head/Credit Officer/ARCO in the region.
b) Legal Audit is being conducted for all the advances Rs.1 Crore and above, backed by mortgage of properties, once in a year.
c) The review of accounts is usually done once a year. But in case of deterioration of the quality of advance the frequency of review is shortened to half yearly or quarterly as per the case.
d) The Credit Officers at branch level take care of the security creation and account management
e) Credit Monitoring Department monitors the performance of loan assets of the Bank.
f) Bank also carries out industry study which would provide necessary information to Business line to increase/hold/decrease exposure under various industries.

Quantitative disclosures:

(a)Total Gross credit exposures: (After accounting offsets in accordance with applicable accounting regime and without taking into account the effects of credit risk mitigation techniques e.g. Collateral and netting)

Rs. in Crore

Overall credit exposure		**Amount**	**TOTAL**
Fund Based	Loans & advances	6957.06	8248.80
	Cash, RBI and Banks	835.69	
	Others(Fixed Assets & other Assets)	456.06	
Non Fund Based	LC, BG etc	327.45	1117.68
	Forward Contracts / Interest rate SWAPS	453.49	
	Others	336.75	
Investments (Banking Book only)	--	1549.83	1549.83
Total of Credit Risk exposure	--	10916.32	10916.32

(b) **Geographic distribution of exposures:**

Exposures	**30.06.2016 (Rs. in Crore)**		
	Fund based	**Non Fund Based**	**TOTAL**
Domestic operations	9798.63	1117.68	10916.32
Overseas operations	Bank has no overseas operations		

(c) Industry type distribution of exposures (funded) as on 30.06.2016:

(Rs. in Cr.)

	Outstanding	**Exposure**
A. Mining and Quarrying	5.22	5.58
B. Food Processing	232.21	282.59
C. Beverages (excluding Tea & Coffee) and Tobacco	0.86	1.54
D. Textiles	134.47	153.58
E. Leather and Leather products	15.02	17.25
F. Wood and Wood Products	6.59	14.55
G. Paper and Paper Products	79.69	145.67
H. Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	0.35	0.58
I. Chemicals and Chemical Products (Dyes, Paints, etc.)	33.73	42.08
J. Rubber, Plastic and their Products	8.84	9.43
K. Glass & Glassware	0.46	0.55
L. Cement and Cement Products	28.74	29.00
M. Basic Metal and Metal Products	33.43	70.20
N. All Engineering	63.48	95.82
O. Vehicles, Vehicle Parts and Transport	5.31	6.08

Equipments		
P. Gems and Jewellery	326.45	352.18
Q. Construction	90.01	128.08
R. Infrastructure	518.92	622.41
S. Other Industries	74.60	80.76
All Industries (A to S)	1658.39	2057.93
Residuary other advances	5112.67	5509.42
Gross Advances	**6771.05**	**7567.35**

Exposures to Infrastructure (transport, energy, water sanitation, communication etc) and Gems and Jewellery accounted for 8.22% and 4.65% of Gross Advances outstanding, respectively. The coverage of advances to the above two industries occupy the top two positions among the total industry sectors.

(d) Residual maturity breakdown of assets as on 30.06.2016:

(Rs. in crore)

Maturity Pattern	**Advances (Net)**	**Investments (Gross)**	**Foreign Currency**
Assets			
Day 1	46.23	0.00	129.21
2 to 7 Days	66.33	71.22	0.18
8 to 14 days	100.99	151.70	20.79
15 to 30 days	86.87	95.08	23.56
31 days to 2 months	172.82	0.00	35.22
Over 2 months up to 3 months	235.09	70.92	61.78
Over 3 months and up to 6 months	341.04	230.46	86.04
Over 6 months and up to 1 year	783.80	1491.79	100.81
Over 1 year and up to 3 years	3509.13	309.07	0.00
Over 3 years and up to 5 years	533.48	69.05	1.49
Over 5 years	617.30	1636.04	6.91
Total	6493.08	4125.34	466.00

(e) Non-performing assets:

No	**Items**	**Amount in Rs. In Million**
		30.06.2016
1	**Gross NPAs**	4754.99
1.1	Substandard	803.55
1.2	Doubtful 1	1012.42
1.3	Doubtful 2	2022.98
1.4	Doubtful 3	805.87
1.5	Loss	110.17
2	**Net NPAs**	1976.56
3	**NPA Ratios**	
3.1	Gross NPAs to Gross Advances (%)	7.02
3.2	Net NPA s to Net Advances (%)	3.04

4	**Movement of NPAs (gross)**	
4.1	Opening balance	4589.24
4.2	Additions	421.10
4.3	Reductions	255.35
4.4	Closing balance	4754.99
5	**Movement of provisions for NPAs**	
5.1	Opening balance	2556.98
5.2	Provisions made during the quarter	238.39
5.3	Write-off	
5.4	Write back of excess provisions	72.29
5.5	Closing balance	2723.09
6	**Amount of non-performing investments**	353.60
7	**Amount of provisions held for non – performing investments**	353.60
8	**Movement of Provisions held for NPIs**	
8.1	Opening balance	353.60
8.2	Provisions made during the period	
8.3	Write-off/ Write back of excess provisions	-
8.4	Closing balance	353.60

Details of major industry wise NPA and Provision held

(Rs. in Mio)

Sl.No.	*Industry*	*Exposure Outstanding*	*Gross NPA*	*Provision*
1	Gems and Jewellery	3521.84	2.33	0.58
2	Food Processing	2825.91	7.18	1.27
3	Textiles	1535.79	35.96	7.13
4	Construction	1280.76	18.86	2.47
5	Paper and Paper Products	1456.71	750.27	750.05
	Total	**10621.02**	**814.59**	**761.50**

Table DF 4 Disclosures for portfolios subject to the standardized approach

Qualitative disclosures:

(a) For Portfolios under the standardized approach

1	Names of credit rating agencies used	Bank has approved all the external credit rating agencies accredited by RBI for the purpose of credit risk rating of domestic borrowal accounts, i.e. CRISIL, CARE, India Ratings & Research Pvt. Ltd., ICRA, Brick Work Ratings, SMERA and International Credit rating agencies, i.e, Standard and Poor, Moody’s and FITCH.
2	Changes if any, since prior period disclosure in the identified rating agencies and reasons for the same.	No change
3	Types of exposure for which each agency is used	The external rating assigned by an agency is considered only if it fully takes into account the credit exposure of the Bank. Bank is entitled to use the ratings of all the above identified Rating Agency rating for various types of exposures as follows :

		(i) For Exposure with a contractual maturity of less than or equal to one year (except Cash Credit , Overdraft and other Revolving Credits) , Short -Term Rating given by ECAIs will be applicable
		(ii) For Domestic Cash Credit , Overdrafts and other Revolving Credits (irrespective of the period) and / or Term Loan exposures of over one year, Long Term Rating will be applicable.
		(iii) For Overseas exposures, irrespective of the contractual maturity, Long Term Rating given by IRAs will be applicable.
		(iv) Rating by the agencies is used for both fund based and non-fund based exposures.
		(iv) Rating assigned to one particular entity within a corporate group cannot be used to risk weight other entities within the same group.
4	Description of the process used to transfer public issue rating on to comparable assets in the Banking book.	Long –term Issue Specific (our own exposures or other issuance of debt by the same borrower-constituent/counter-party) Ratings or Issuer(borrower-constituent/counter-party) Ratings can be applied to other unrated exposures of the same borrower-constituent/counterparty in the following cases :
		(i) If the Issue Specific Rating or Issuer Rating maps to Risk Weight equal to or higher than the unrated exposures , any other unrated exposure on the same counter-party will be assigned the same Risk Weight , if the exposure ranks paripassu or junior to the rated exposure in all aspects
		(ii) In cases where the borrower-constituent/counter-party has issued a debt (which is not a borrowing from our Bank), the rating given to that debt may be applied to Bank's unrated exposures if the Bank's exposure ranks pari-passu or senior to the specific rated debt in all respects and the maturity of unrated Bank's exposure is not later than Maturity of rated debt.

Quantitative disclosures

Amount of Bank's outstanding (rated & unrated) in major risk buckets- under standardized approach after factoring risk mitigants (i.e., collaterals):

(Rs. in Crores)

Particulars	Total
Below 100% risk weight	6173.33
100% risk weight	2240.92
More than 100% risk weight	356.77
Total Exposure	**8771.02**

*in below 100% risk weighted exposures, Rs.505.61 crore is rated by External Credit Rating Agencies and recognized by the Bank in arriving at the risk weight. However, more than 90% of the exposures are rated as per Internal Credit Rating Exercise.

TABLE DF 5 –CREDIT RISK MITIGATION- STANDARDIZED APPROACH

QUALITATIVE DISCLOSURE:

(a) General

Policies and processes for collateral valuation and management:

The Bank has put in place a Board approved policy on Credit Risk Mitigation Techniques and Collateral Management, covering the credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes.

A description of the main types of collateral taken by the Bank

Collateral used by the Bank as risk mitigants for capital computation under Standardized Approach comprise eligible financial collaterals namely: -

- ✓ Cash and fixed deposits of the counterparty with the Bank.
- ✓ Gold: value arrived at after notionally converting these to 99.99% purity.
- ✓ Securities issued by Central and State Governments.
- ✓ Kisan Vikas Patra and National Savings Certificates.
- ✓ Life Insurance Policies restricted to their surrender value.
- ✓ Debt securities rated by an approved Rating Agency.
- ✓ Unrated debt securities issued by Banks, listed in Stock Exchange.
- ✓ Units of Mutual Funds.

Bank has no practice of 'On balance sheet' netting for credit risk mitigation.

The main types of guarantor counterparty and their creditworthiness

Bank accepts guarantees of Individuals or Corporates with adequate networth, 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. Main types of guarantor counterparty as per RBI guidelines are: -

- ✓ Sovereigns (Central/ State Governments)
- ✓ Sovereign entities like ECGC, CGTMSE, CRGFTLIH
- ✓ Bank and primary dealers with a lower risk weight than the counterparty
- ✓ Other entities rated AA (-) and above. The Guarantees has to be issued by entities with a lower risk weight than the counterparty.

Information about risk concentrations of collaterals within the mitigation taken as on 30.06.2016:

Financial Risk Mitigants	Outstanding Covered by Risk Mitigants (In Crore)	Risk Concentration %
Gold	789.89	58.14%
Cash & Deposits	567.73	41.79%
KVP/IVP/NSC	0.79	0.06%
LIC Policy	0.10	0.01%
Total	**1358.51**	**100.00%**

Majority of the financial collaterals held by the Bank are by way of Gold, own deposits, Life Insurance Policies and other approved securities. Bank does not envisage market liquidity risk in respect of financial collaterals.

Concentration on account of collateral is also relevant in the case of land& building. However, as land & building is not recognized as eligible collateral under Basel II standardized approach, its value is not reduced from the amount of exposure in the process of computation of capital charge. It is used only in the case of housing loan to individuals and non performing assets to determine the appropriate risk weight. As such, there is no concentration risk on account of nature of collaterals.

Quantitative Disclosures:

For the disclosed Credit Risk portfolio under the Standardised Approach, the total Exposure that is covered by:

(i) Eligible Financial Collateral	: Rs. **1358.51** Crores
(ii) Other eligible Collateral (after Hair Cuts)	: Rs. Nil

DF TABLE 6- SECURITISATION – STANDARDIZED APPROACH:

Qualitative Disclosures:

- Bank has not securitized any of its standard assets till date.

DF TABLE 7 - MARKET RISK IN TRADING BOOK- STANDARDIZED MODIFIED DURATION APPROACH:

Qualitative Disclosures:

(a) General : -

Strategies and processes

The overall objective of market risk management is to maximize shareholder value by improving the Bank's competitive advantage and reducing loss from all types of market risk loss events. For effective management of market risk, Bank has put in place a well established framework with the Integrated Treasury Policy and Asset Liability Management Policy. The Asset Liability Management Committee is responsible for establishing market risk management and Asset liability management in the Bank. ALCO is a decision making unit responsible for balance sheet planning from risk-return perspective including the strategic management of interest rate and liquidity risks. Bank is computing LCR (Liquidity Coverage Ratio) on a monthly basis. ALCO ensures adherence to the limits set by RBI as well as the Board.

Scope and nature of risk reporting/ measurement systems

The Bank has put in place regulatory/ internal limits for various products and business activities relating to trading book. Various exposure limits for market risk management such as overnight limit, VaR limit, Daylight limit, Aggregate Gap limit, Investment limits etc. are in place. The reporting system ensures time lines, reasonable accuracy with automation, highlight portfolio risk concentrations and include written analysis. The reporting formats and frequency are periodically reviewed to ensure that they suffice for risk monitoring, measuring and mitigation requirements of the Bank. Bank also subjects Non-SLR investments to credit rating.

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

Board approved policies viz., Integrated Treasury Policy and Asset Liability Management Policy provides the framework for risk assessment, identification, measurement and mitigation, risk limits & triggers, risk monitoring and reporting.

Liquidity risk of the Bank is assessed through Statement of Structural Liquidity Statement which is prepared on a daily basis. The Bank also reviews various liquidity ratios on a fortnight basis in order to control the liquidity position. Interest Rate Risk is analyzed from earnings perspective using Traditional Gap Analysis on a fortnightly basis and economic value perspective using Duration Gap Analysis on a monthly basis. Stress tests are conducted at quarterly intervals to assess the impact of various contingencies on the Bank's earnings and the capital position.

The Bank uses Standardized Duration approach for computation of market risk capital charge on the investment portfolio held under HFT and AFS, Gold and Forex Open positions. The market risk capital charge is calculated on a daily basis and reported to ALCO.

Quantitative Disclosures:

Particulars	Amount of capital requirement 30.06.2016 (Rs. in crores)
Interest rate risk	**39.99**
Equity position risk	**10.69**
Foreign exchange risk	**2.25**

TABLE DF 08-OPERATIONAL RISK:

Qualitative disclosures:

(a) General

Strategies and processes: The Bank's strategy is to ensure that the Operational risks which are inherent in Process, People and System and the residual risks are well managed by the implementation of effective Risk management techniques. Keeping this in view, the Bank has been following risk management measures which address the risks before and after implementation of a process, product and system. All new products, processes and systems which are cleared by the Product & Process Approval Committee (PPAC) are risk vetted by the Operational Risk Management (ORM) cell, before implementation. The ORM cell has completed Risk & Control Self Assessment (RCSA) at Thrust Branches and other core functions highlighting the potential risks that can happen during the course of operations and to assess whether the controls are adequate to manage/ mitigate these risks. Risk Based Internal Audit is in place in all the Branches. The Bank has a RCSA document approved by the Risk Management Committee of the Board (RMCB), in place.

The framework for Operational Risk Management is well-defined in the Operational Risk Management (ORM) Policy which is reviewed and revised annually. The ORM Committee at the executive level, which meets at regular intervals oversees Bank-wide implementation of Board approved policies and process in this regard. The Bank has put in place important policies like Information System Security, Know Your Customer & Anti Money Laundering, Fraud Risk Management, Business Continuity and Disaster Recovery Management.

Scope and nature of risk reporting/ measurement systems: -

The Bank has adopted Operational Loss Data Reporting Format from the Loss Data Methodology Document for collection of Loss Data, which will enable the Bank to eventually ease the transition to Advanced Measurement Approach for Capital Calculation. The ORM cell has a well-built internal Loss data collection system in place. The risk reporting consists of operational risk loss incidents/ events occurred in branches/ offices relating to people, process, technology and external events.

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

Internal control mechanism is in place to control and minimize the operational risks. If any controls are found to be ineffective during the course of Risk & Control Self Assessment, corrective measures are adopted in due course. A monitoring system is also in place for tracking the corrective actions plan periodically. Bank is using insurance for mitigating operational risk. The various Board approved policies viz., Operational Risk Management Policy, Outsourcing Policy, Compliance Policy, Internal Inspection & Audit Policy, Internet Banking Security Policy; Policy on KYC & AML; Information Systems Security Policy and Business continuity Plans addresses issues pertaining to Operational Risk Management.

Operational Risk capital assessment:

The Bank has adopted Basic Indicator Approach for calculating capital charge for Operational Risk, as stipulated by the Reserve Bank of India. The ORM Cell is focusing on the qualitative and quantitative requirements (RCSA, KRI identification, Business line mapping etc) prescribed by the regulator and these are being adopted by the Bank to move on to the Advanced Approaches in due course.

TABLE DF 09- Interest rate risk in the Banking Book (IRRBB):

(a) Qualitative Disclosures:

Strategies and processes

The Bank has put in place a comprehensive market risk management framework to address market risks. The Asset Liability Management Policy prescribes the measurement of the interest rate risk under two perspectives – Earnings perspective and Economic Value Perspective.

Under Earnings perspective, Bank uses the Traditional gap analysis method to calculate the Earnings at Risk (EAR), which is the quantity by which net income might change in the event of an adverse change in interest rate. EAR is calculated on a fortnightly basis.

Under Economic value perspective, Bank uses Duration Gap Analysis to assess the impact of interest rate risk. The Duration gap analysis monitors the impact of changes in the interest rates on the Market Value of Equity (MVE). It is calculated on a monthly basis.

The framework for managing interest rate risk (EVE) under Pillar II of Basel II is put in place through ICAAP Policy document.

Scope and nature of risk reporting/ measurement systems

Interest rate risk under duration gap analysis is evaluated on a monthly basis. The likely drop in Market Value of Equity for a 200 bps change in interest rates is computed. Earnings at Risk based on

Traditional Gap Analysis are calculated on a fortnightly basis and adherence to tolerance limits set in this regard is monitored and reported to ALCO. Stress tests are conducted to assess the impact of interest rate risk under different stress scenarios on earnings of the Bank.

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

Bank has operationalised mitigating/hedging measures prescribed by Integrated Treasury Policy, ALM Policy and Stress Testing Policy. The strategy adopted by ALCO for mitigating the risk is by clearly articulating the acceptable levels of exposure to specific risk types (interest rate, liquidity etc). The process for mitigating the risk is initiated by altering the mix of asset and liability composition and with the proper pricing of advances and deposits.

Brief description of the approach used for computation of interest rate risk

The interest rate risk (EVE) is computed through Duration Gap Analysis. The step-by-step approach for computing modified duration gap is as follows:

i) Identify variables such as principal amount, maturity date / re-pricing date, coupon rate, yield, frequency and basis of interest calculation for each item / category of Rate Sensitive Asset/Rate Sensitive Liability (RSA/RSL).
ii) Plot each item / category of RSA/RSL under the various time buckets. For this purpose, the absolute notional amount of rate sensitive off-balance sheet items in each time bucket are included in RSA if positive or included in RSL if negative.
iii) The mid-point of each time bucket is taken as a proxy for the maturity of all assets and liabilities in that time bucket.
iv) Determine the coupon and the yield curve for arriving at the yields based on current market yields or current replacement cost for computation of Modified Duration (MD) of RSAs and RSLs.
v) Calculate the MD in each time band of each item/ category of RSA/RSL using the maturity date, yield, coupon rate, frequency, yield and basis for interest calculation.
vi) Calculate the MD of each item/category of RSA/RSL as weighted average MD of each time band for that item.
vii) Calculate the weighted average MD of all RSA (MDA) and RSL (MDL) to arrive at Modified Duration Gap (MDG).

(b) Quantitative Disclosures

The impact on earnings and economic value of equity for notional interest rate shocks as on 30.06.2016.

Earnings at Risk

Change in interest rate	**Change in NII (Rs. in Crores)**
± 25 bps	**5.39**
± 50 bps	**10.77**
± 75 bps	**16.16**
± 100 bps	**21.55**

The Bank is computing market value of equity based on Duration Gap Analysis.

For a 200 bps rate shock, the drop in equity value as on 30.06.2016	**2.01%**

Table DF -10: General Disclosure for Exposure Related to Counterparty Credit Risk

Qualitative disclosures

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Bank has put in place Counterparty Credit Risk limits for banks as counterparty, based on a number of financial parameters like net worth, capital adequacy ratio, rating etc of the counterparty bank and with the approval of the Board. Counterparty exposures for other entities are subject to comprehensive exposure ceilings fixed by the Board. Capital for Counterparty Credit Risk is assessed based on the Standardized Approach

Quantitative disclosures

The Bank does not recognize bilateral netting. The credit equivalent amounts of derivatives that are subjected to risk weighting are calculated as per the Current Exposure Method. The derivative exposure is calculated using Current Exposure Method and the balance outstanding as on June 30, 2016 is given below.

(Rs. in Million)

Particulars	Notional Amounts	Credit Equivalent
Forward Exchange Contracts	3784.85	92.17
Interest Rate Derivative Contracts	500	5.82

Leverage Ratio

Leverage ratio is a non-risk based measure of all exposures for the Tier-I capital. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage. Presently the indicative benchmark Leverage Ratio prescribed is 4.50% (minimum).

$$\text{Leverage Ratio} = \frac{\text{Capital Measure (Tier I Capital)}}{\text{Exposure Measure}}$$

Table DF 17- Summary comparison of accounting assets vs. leverage ratio exposure measure

	Item	(Rs. in Million)
1	Total consolidated assets as per published financial statements	121936.46
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	20.66
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-448.06
4	Adjustments for derivative financial instruments	97.99
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	0.00
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	4457.5
7	Other adjustments	1682.78
8	Leverage ratio exposure	127747.33

	Table DF-18: Leverage ratio common disclosure template	
	Item	**Leverage ratio framework (Rs. in million)**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	123639.90
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	448.06
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**123191.84**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	17.29
5	Add-on amounts for PFE associated with all derivatives transactions	80.70
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivative exposures (sum of lines 4 to 10)	**97.99**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	CCR exposure for SFT assets	
15	Agent transaction exposures	
16	Total securities financing transaction exposures (sum of lines 12 to 15)	
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	4457.50
18	(Adjustments for conversion to credit equivalent amounts)	0
19	Off-balance sheet items (sum of lines 17 and 18)	**4457.50**
	Capital and total exposures	
20	Tier 1 capital	**4120.49**
21	Total exposures (sum of lines 3, 11, 16 and 19)	**127747.33**
	Leverage ratio	
22	Basel III leverage ratio	**3.23%**