## DF-2 Capital Adequacy:

***Qualitative Disclosures:***

The Bank is subject to the Capital adequacy norms as per Master Circular on Basel-III Capital Regulations July 2015and amendments thereto issued by the Reserve Bank of India ('RBI'). The Basel III capital regulation is being implemented in India from April 1, 2013 in phases and it will be fully implemented as on March 31, 2019. In view of the gradual phase-in of regulatory adjustments to the capital components under Basel III, certain specific prescriptions of Basel II capital adequacy framework shall also continue to apply.

As at December 31, 2017, the capital of the Bank is higher than the minimum capital requirement as per Basel-III guidelines.

The Bank has a process for assessing its overall capital adequacy in relation to the Bank's risk profile and a strategy for maintaining its capital levels. The process ensures that the Bank has adequate capital to support all the material risks and an appropriate capital cushion. The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through robust risk management framework, control mechanism and an elaborate process for capital calculation and planning. The Bank has formalised and implemented a comprehensive Internal Capital Adequacy Assessment Process (ICAAP). The Bank's ICAAP covers the capital management policy of the Bank and also sets the process for assessment of the adequacy of capital to support current and future business projections / risks for 5 years. The Bank has a structured process for the identification and evaluation of all risks that the Bank faces, which may have an adverse material impact on its financial position.

The Bank's stress testing analysis involves the use of various techniques to assess the Bank's potential vulnerability to extreme but plausible ("stressed") business conditions. Typically, this relates, among other things, to the impact on the Bank's profitability and capital adequacy. Stress Tests are conducted on a quarterly basis on the Bank's on and off balance sheet exposures to test the impact of Credit, Liquidity risk and Interest Rate Risk in the Banking book (IRRBB). The stress test results are put up to the Asset and liability Committee (ALCO) on a quarterly basis, for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of market conditions. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

The integration of risk assessment with business processes and strategies governed by a risk management framework under ICAAP enables the Bank to effectively manage risk-return trade off.

**Pillar I**

The Bank has adopted Standardised Approach for Credit Risk, Standardized Duration Approach for Market Risk and Basic Indicator Approach for Operational Risk for computing its capital requirement.

The total Capital to Risk weighted Assets Ratio (CRAR) as per Basel III guidelines works to 102.74% as on December 31, 2017 (as against minimum regulatory requirement of 9%). The Tier I CRAR stands at 102.27% as against RBI's prescription of 7.00%. The Bank has followed the RBI guidelines in force, to arrive at the eligible capital, risk weighted assets and CRAR.

***Quantitative Disclosure:***

The Bank's capital requirements and capital ratios as of 31 Dec 2017 are as follows:-

*(Rs. '000)*

| Composition of Capital | As on 31 Dec 2017 | As at 30 Sep 2017 |
|---|---|---|
| **1. Capital requirements for Credit Risk** | 515,690 | 412,042 |
| - Portfolios subject to standardized approach | | |
| - Securitisation Exposures | | |
| **2. Capital requirements for Market Risk** (Subject to Standardized Duration Approach) | | |
| - Interest rate risk | 14,762 | 14,956 |
| - Foreign exchange risk (including gold) | 32,602 | 32,602 |

| | | |
|---|---|---|
| - Equity risk | - | - |
| **3. Capital requirements for Operational Risk** (Subject to basic indicator approach) | 125,354 | 125,354 |
| **Total Capital Requirements at 9% (1+2+3)** | 688,408 | 584,954 |
| **Total Capital** | 7,858,554 | 7,859,337 |
| Common Equity Tier I | 7,822,724 | 7,821,915 |
| Additional Tier I Capital | - | - |
| Tier II Capital | 35,830 | 37,422 |
| Common Equity Tier I capital ratio (%) | 102.27% | 120.35% |
| Tier I Capital Adequacy Ratio (%) | 102.27% | 120.35% |
| Total Capital Adequacy Ratio (%) | 102.74% | 120.92% |

**Risk Exposure and Assessment**

The Bank considers the following risks as material risks it is exposed to in the normal course of its business and therefore, factors these while assessing / planning capital:

• Credit Risk
• Market Risk
• Operational Risk
• Credit Concentration Risk
• Liquidity Risk
• Interest Rate Risk in the Banking Book

**Risk Management framework**

The Bank is exposed to various types of risk. The Bank has separate and independent Risk Management Department in place which oversees all types of risks in an integrated fashion. The objective of risk management is to have optimum balance between risk and return. It entails the identification, measurement and management of risks across the various businesses of the Bank.

The Group Board has approved a risk management framework for all its entities within the Group, including its Mumbai branch.

The assumption of financial and non-financial risks is an integral part of the Group's business. The Group's risk management strategy is targeted at ensuring proper risk governance so as to facilitate on-going effective risk discovery and to efficiently set aside adequate capital to cater for the risks. Risks are managed within levels established by the Group Management Committees, and approved by the Board and its committees. The Group has a comprehensive framework of policies and procedures for the identification, assessment, measurement, monitoring, control and reporting of risks. This framework is governed by the appropriate Board and Senior Management Committees. The Board and the Senior Management Committees have the overall responsibility for risk management and risk strategies in the Bank.

The Group applies the following risk management principles:

1. Delivery of sustainable long-term growth using sound risk management principles and business practices;
2. Continual improvement of risk discovery capabilities and risk controls; and
3. Business development within a prudent, consistent and efficient risk management framework.

**DF-3 Credit Risk**

Credit risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

**BASEL III - Pillar 3 as on December 31, 2017**

The Bank adopts the definition of ‘past due’ and ‘impaired credits’ (for accounting purposes) as defined by Reserve Bank of India under Income Recognition, Asset Classification and Provisioning (IRAC) norms (vide RBI Master Circular dated July 1, 2015).

**Credit Risk Management policy** The Bank has an approved Credit policy and also relies on the Groups credit policies and processes, adhering to the directives and guidelines issued by RBI to manage credit risk in the following key areas:-

- **Credit Approval Process**

To maintain independence and integrity of the credit approval process, the credit approval function is segregated from the credit origination. Credit approval authority is delegated through a risk-based Credit Discretionary Limits (“CDL”) structure that is tiered according to the borrower’s rating. Delegation of CDL follows a stringent process that takes into consideration the experience, seniority and track record of the officer. All credit approving officers are guided by product programmes. These credit policies, guidelines and product programmes are periodically reviewed to ensure their continued relevance.

- **Credit Risk Concentration**

A risk-sensitive process is in place to regularly review, manage and report credit concentrations and portfolio quality. This includes monitoring concentration limits and exposures by obligors, portfolios, borrowers and industries. Limits are generally set as a percentage of the Group’s capital funds.

Obligor limits ensure that there is no undue concentration to a group of related borrowers that may potentially pose a single risk to the Group.

Portfolio and borrowers limits ensure that lending to borrowers with weaker credit ratings is confined to acceptable levels. These limits are generally tiered according to the borrower’s internal ratings.

Industry limits ensure that any adverse effect arising from an industry-specific risk event is confined to acceptable levels.

The Bank adopts a credit risk strategy and risk appetite, which is in line with its risk taking ability to ensure conservation and growth of shareholder funds, with a proper balance between risk and reward. Financial resources are allocated to best optimise the risk reward ratio.

- Ensuring that all economic and regulatory requirements are complied wit
- Ensuring that the portfolio is consistent with the Bank’s strategy and objectives especially in relation to risk concentration, maturity profile and liquidity management

**Quantitative disclosures**

Total gross credit exposure as on December 31, 2017

*(Rs. ‘000)*

| **Particulars** | **Exposure** | **Lien Marked Deposits against Exposures** | **Exposure backed by Eligible Guarantees** |
|---|---|---|---|
| Fund based* | 8,066,066 | - | 90,880 |
| Non fund based | 2,720,737 | - | - |

*Represents book value as at December 31, 2017*

Notes:

1. Fund based credit exposure excludes Balance with RBI, Balances with Banks, SLR investments, deposits placed SIDBI, Fixed and Other assets.
2. Non-fund based exposure includes Bank Guarantee exposures and Forward Contracts & LC Acceptances.

**BASEL III - Pillar 3 as on December 31, 2017**

Geographic distribution of exposure as on December 31, 2017

*(Rs. '000)*

| **Particulars** | **Domestic** | | |
|---|---|---|---|
| | **Exposure** | **Lien Marked Deposits against Exposures** | **Exposure backed by Eligible Guarantees** |
| Fund based* | 8,066,066 | - | 90,880 |
| Non fund based | 2,720,737 | - | - |

**Represents book value as at December 31, 2017*

Notes:
1. Fund based credit exposure excludes Balance with RBI, Balances with Banks, SLR investments, deposits placed with SIDBI, Fixed and Other assets.
2. Non-fund based exposure includes Bank Guarantee exposures and Forward Contracts & LC Acceptances.
3. The Bank has no direct overseas Credit Exposure (Fund / Non Fund) as on December 31, 2017

**Industry Type Distribution of Exposure as at Dec 31, 2017 (Gross)**

*(Rs. '000)*

| **Industry Name** | **Sub Industry** | **Fund Based Exposure*** | **Non Fund Based Exposure** | **Total Exposure** |
|---|---|---|---|---|
| Basic Metal and Metal Products | | - | 450,883 | 450,883 |
| | | 702,625 | - | 702,625 |
| All Engineering | | - | - | - |
| Chemicals, Dyes, Paints,Fertilizers etc | Pharma | 63,875 | - | 63,875 |
| Leather and Leather Products | | 408,000 | - | 408,000 |
| Telecommunication | | - | - | - |
| NBFC's | | 3,320,000 | - | 3,320,000 |
| Cement | | - | - | - |
| Petroleum | | 2,516,250 | 6,493 | 2,522,743 |
| **Other Industries** | | - | - | - |
| Of which; Electricity | | - | - | - |
| Food Confectionary | | 64,000 | - | 64,000 |
| Logistic | | 21,380 | - | 21,380 |
| Banks | | - | 326,647 | 326,647 |
| Aviation | | | 964,513 | 964,513 |
| Paper & Paper products | | 807,436 | - | 807,436 |
| Commodities Trading | | - | - | - |
| Others | | 162,500 | 972,201 | 1,134,701 |
| Guarantees issued against C/G | | - | - | - |
| **Total** | | 8,066,066 | 2,720,737 | 10,786,803 |

Notes:
1. Fund based credit exposure excludes Balance with RBI, Balances with Banks, SLR investments, deposits placed with SIDBI, Fixed and Other assets.
2. Non-fund based exposure includes Bank Guarantee exposures and Forward Contracts & LC Acceptances.

**Residual contractual maturity breakdown of assets**

*(Rs. '000)*

| Maturity Bucket | Cash, Balances with RBI and other Banks | Advances | Investments | Fixed Assets | Other Assets (Net) |
|---|---|---|---|---|---|
| Day 1 | 1,664,190 | 18,000 | 2,742,404 | 0 | 17,199 |
| 2 to 7 days | 377 | 20,000 | 204,664 | 0 | 2,805 |
| 8 to 14 days | 0 | 849,500 | 0 | 0 | 254,775 |
| 15 to 28 days | 38,892 | 307,500 | 204,185 | 0 | 130,369 |
| 29 days to 3 months | 63,691 | 1,901,000 | 334,376 | 0 | 32,223 |
| Over 3 months to 6 months | 38,457 | 4,103,750 | 201,899 | 0 | 0 |
| Over 6 months to 12 months | 0 | 64,000 | 0 | 0 | 83 |
| Over 1 year to 3 years | 2,371 | 380 | 12,449 | 0 | 0 |
| Over 3 years to 5 years | 0 | 240,581 | 0 | 0 | 0 |
| Over 5 years | 0 | 0 | 0 | 9,775 | 535,611 |
| **Total** | 1,807,978 | 7,504,711 | 3,699,977 | 9,775 | 973,065 |

**Movement of NPA (Gross) and Provision for NPAs**

*(Rs. In '000)*

| Particulars | As at 31 Dec 2017 |
|---|---|
| (i) Amount of NPAs (Gross) | 801,936 |
| • Substandard | 801,936 |
| • Doubtful 1 | - |
| • Doubtful 2 | - |
| • Doubtful 3 | - |
| • Loss | - |
| (ii) Net NPAs | 240,581 |
| (iii) NPA Ratios | - |
| • Gross NPAs to Gross Advances | 9.94% |
| • Net NPAs to Net Advances | 3.21% |
| (iv) Movement of NPAs (Gross) | - |
| Opening Balance as at April 1, 2017 | 801,936 |
| Additions | - |
| Reductions | - |
| Closing Balance as at December 31, 2017 | 801,936 |
| (v) Movement of provision of NPAs | |
| Opening Balance as at April 1, 2017 | 360,871 |
| Provisions made | 200,484 |
| Write- offs of NPA provision | - |
| Write backs of excess provisions | - |
| Closing Balance as at December 31, 2017 | 561,355 |

**NPI (Gross), Provision for NPI and Movement in Provision for Depreciation on investments**

*(Rs in 000s)*

| Particulars | As at 31 Dec 2017 |
|---|---|
| (i) Amount of Non Performing Investments | - |
| (ii) Amount of provisions held for Non Performing Investments | - |
| (iii) Movement of provisions for depreciation on investments | - |
| Opening Balance as at April 1, 2017 | - |
| Provision made | - |
| Provision written back on account of sale of Investment and write back | - |
| Closing Balance as at December 31, 2017 | - |

**Movement of general provisions during the period ended Dec 31, 2017**

*(₹ '000)*

| Movement of provisions | Standard Assets Provision | Country Risk Provision | Unhedged Foreign Currency Exposures Provision | Specific Provision |
|---|---|---|---|---|
| Opening balance as at Apr 1, 2017 | 45,228 | 481 | 14,277 | 360,871 |
| Provisions made during the period | - | 1,344 | - | 200,484 |
| Write-off | - | - | - | - |
| Write-back of excess provisions | 14,430 | - | 12,070 | - |
| Any other adjustments, including transfers between provisions | - | - | - | - |
| Closing balance as at Dec 31, 2017 | 31,798 | 1,825 | 2,207 | 561,355 |

**NPA (Gross), Provision for NPA and Movement in Provision for NPA**

*(₹ '000)*

| Particulars | As at 31 Dec 2017 |
|---|---|
| (i) Amount of Non-Performing Assets | 801,936 |
| (ii) Amount of provisions held for Non-Performing Assets | 561,355 |
| (iii) Movement of provisions for Non-Performing Assets | |
| Opening Balance as at Apr 1, 2017 | 360,871 |
| Provision made during the year | 200,484 |
| Provision written back on account of sale of Investment and write back | - |
| Closing Balance as at Dec 31, 2017 | 561,355 |

**Major industry wise distribution of NPA, Specific and General Provision as on 31 Dec 2017**

*(₹ '000)*

| Industry Name | Sub Industry | NPA | Specific Provision on NPA | General Provision* |
|---|---|---|---|---|
| Basic Metal and Metal Products | | - | - | - |
| | | - | - | 4,614 |
| All Engineering | | - | - | - |
| Chemicals, Dyes, Paints,Fertilizers etc | Pharma | - | - | 256 |
| Leather and Leather Products | | - | - | 1,632 |
| Telecommunication | | - | - | - |
| NBFC's | | - | - | 13,280 |
| Cement | | - | - | - |
| Petroleum | | - | - | 10,091 |
| **Other Industries** | | - | - | - |
| Of which; Electricity | | - | - | - |
| Food Confectionary | | - | - | 256 |
| Logistic | | - | - | 86 |
| Banks | | - | - | - |
| Aviation | | - | - | - |
| Paper & Paper products | | 801,936 | 561,355 | 22 |
| Commodities Trading | | - | - | - |
| Others | | - | - | 1,561 |
| Guarantees issued against C/G | | - | - | - |
| **Total** | | 801,936 | 561,355 | 31,798 |

**Represents standard assets provision*

**Geographic Distribution of NPA as on 31 Dec 2017**

*(₹ '000)*

| Particulars | Domestic | Overseas |
|---|---|---|
| Non-Performing Loan Assets (Gross amount) | 801,936 | - |

**DF-4 Credit Risk: Disclosures for Portfolios subject to Standardised approach**

**Qualitative Disclosure**

The Bank has used the ratings of the following external credit rating agencies (arranged in alphabetical order) for the purposes of risk weighting their claims for capital adequacy purposes:

a) Brickwork Ratings India Pvt. Limited (Brickwork)
b) Credit Analysis and Research Limited (CARE)
c) Credit Rating Information Services of India Limited (CRISIL)
d) ICRA Limited (ICRA)
e) India Ratings and Research Private Limited (India Ratings) and
f) SME Rating Agency of India Ltd (SMERA)

International credit rating agencies (arranged in alphabetical order) for the purposes of risk weighting their claims for capital adequacy purposes where specified:

a) Fitch;
b) Moody's; and
c) Standard & Poor's

The Bank has used the solicited ratings assigned by the above credit rating agencies for credit facilities provided to its customers.

**A description of the process used to transfer public issuer ratings onto comparable assets in the banking book:**

• Bank has used short term ratings for assets with maturity upto one year and long-term ratings for assets maturing after one year as accorded by the approved external credit rating agencies.

• Bank has not cherry picked ratings. Bank has not used one rating of a CRA (Credit Rating Agency) for one exposure and another CRA's rating for another exposure on the same counterparty unless only one rating is available for a given exposure.

• If an issuer has a long term external credit rating that warrants RW (Risk Weight) of 150%, all unrated exposures on the same issuer whether long or short is assigned the same 150% RW unless mitigated by recognised Credit Risk Mitigation (CRM) techniques.

• Bank has used only solicited rating from the recognised CRAs. In case the issuer has multiple ratings from CRAs, the Bank has a policy of choosing (if there are two or more ratings) lower rating.

• No recognition of CRM technique has been taken into account in respect of a rated exposure if that has already been factored by the CRA while carrying out the rating.

**Quantitative Disclosure**

**Details of credit exposures (funded and non-funded) classified by risk buckets**

The table below provides the break-up of the Bank's net exposures into three major risk buckets.

*(Rs. In '000)*

| Sr. No. | Exposure amounts after risk mitigation | Fund Based Exposure* | Non Funded Exposure |
|---|---|---|---|
| 1 | Below 100% risk weight exposure outstanding | 6,192,686 | 1,686,243 |
| | 100% risk weight exposure outstanding | 1,873,380 | 1,034,494 |
| 3 | More than 100% risk weight exposure outstanding | - | - |
| 4 | Deducted (represents amounts deducted from Capital funds) | - | - |
| | **Total** | 8,066,066 | 2,720,737 |

**Represents book value as at December 31, 2017*

Notes:

1. Fund based credit exposure excludes Balance with RBI, Balances with Banks, SLR investments, deposits placed with SIDBI, Fixed and Other assets.
2. Non-fund based exposure includes Bank Guarantee exposures and Forward Contracts & LC Acceptances.

## Leverage Ratio

The leverage ratio has been calculated using the definitions of capital and total exposure. The Bank's leverage ratio, calculated in accordance with the RBI guidelines under consolidated framework is as follows:

| Sr. No. | Particulars | As on 31-Dec-2017 |
|---|---|---|
| 1 | Tier I capital | 7,822,724 |
| 2 | Exposure Measure | 15,499,399 |
| 3 | Leverage Ratio | 50.47% |

**BASEL III - Pillar 3 as on December 31, 2017**

DF 15 Liquidity Coverage Ratio

| Particulars | | | Total Unweighted Value (average) | Total Weighted Value (average) |
|---|---|---|---|---|
| **High Quality Liquid Assets** | | | | |
| 1 | Total High Quality Liquid Assets (HQLA) | | 41,402 | 41,402 |
| **Cash Outflows** | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | | - | - |
| | (i) | Stable deposits | - | - |
| | (ii) | Less stable deposits | - | - |
| 3 | Unsecured wholesale funding, of which : | | - | - |
| | (i) | Operational deposits (all counterparties) | (7,451) | (3,021) |
| | (ii) | Non-operational deposits (all counterparties) | - | - |
| | (iii) | Unsecured debt | - | - |
| 4 | Secured wholesale funding | | - | - |
| 5 | Additional requirements, of which | | - | - |
| | (i) | Outflows related to derivative exposures and other collateral requirements | (43,618) | (43,618) |
| | (ii) | Outflows related to loss of funding on debt products | - | - |
| | (iii) | Credit and liquidity facilities | - | - |
| 6 | Other contractual funding obligations | | (22,313) | (22,313) |
| 7 | Other contingent funding obligations | | (107,401) | (5,158) |
| 8 | Total Cash Outflows | | (180,783) | (74,110) |
| **Cash Inflows** | | | | |
| 9 | Secured lending (eg reverse repos) | | 16,099 | - |
| 10 | Inflows from fully performing exposures | | 55,657 | 53,181 |
| 11 | Other cash inflows | | 32,870 | 145 |
| 12 | Total Cash Inflows | | 104,626 | 53,325 |
| **Total Adjusted Value** | | | (76,157) | (20,784) |
| 21 | TOTAL HQLA | | | 41,402 |
| 22 | Total Net Cash Outflows | | | 20,784 |
| **23** | **Liquidity Coverage Ratio (%)** | | | 199.20% |