

The Basel Committee for Banking Supervision (BCBS) had proposed the liquidity coverage ratio (LCR) in order to ensure that a bank has an adequate stock of unencumbered high quality liquid assets (HQLA) to survive a significant liquidity stress lasting for a period of 30 days. LCR is defined as a ratio of HQLA to the total net cash outflows estimated for the next 30 calendar days. As per the RBI guidelines the minimum LCR required to be maintained by banks shall be implemented in the phased manner from January 1, 2015 as given below.

Starting from January 1	2015	2016	2017	2018	2019
Minimum LCR	60%	70%	80%	90%	100%

Further due to Covid 19 pandemic RBI has revised the LCR guidelines w.e.f. 17.04.2020, details as given below:

From date of circular to September 30, 2020	80%
Oct 1, 2020 to March 31, 2021	90%
April 1, 2021 onwards	100%

The LCR has two components:

- (a) The value of the stock of high-quality liquid assets (HQLA) in stressed conditions.
- (b) Total net cash outflows: The term “Total net cash outflows” is defined as “Total expected cash outflows” minus “Total expected cash inflows” in the specified stress scenario for the subsequent 30 calendar days (the stressed period).

$LCR = \text{Stock of High Quality Liquid Assets} / \text{Total Net Cash Outflows over the next 30 calendar days}$
 $\geq 100\%$

High Quality Liquid Assets (HQLA):

Liquid assets comprise of high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. They should be unencumbered i.e. without legal, regulatory or operational impediments. Assets are considered to be high quality liquid assets if they can be easily and immediately converted into cash at little or no loss of value.

Bank’s composition of HQLA mainly consists of government securities in excess of minimum Statutory Liquidity Ratio (SLR), the extent allowed under the Marginal Standing Facility (MSF) and the Facility to Avail Liquidity for LCR (FALLCR). Additionally, cash, balances in excess of cash reserve requirement with RBI. Level 2 HQLA primarily consisted of AA- and above rated corporate bonds and commercial papers.

Bank’s Cash Outflow mainly consists of Retail Deposit, Unsecured Wholesale Funding, and Funding from other legal entity customers, Undrawn Committed Credit & Liquidity Facilities, Guarantees Letter Of Credit & Trade Finance, and Other Contractual Outflows.

The cash Inflow mainly consists of amount received from Retail & Small Business Counterparties, amount to be received from Non-Financial Wholesale Counterparties, amount to be received from Financial Institutions & RBI, and from Other Contractual Cash Inflows.

The net cash outflows are calculated by applying RBI prescribed outflow factors to the various categories of liabilities as well as to undrawn commitments, partially offset by inflows from assets maturing within 30 days.

As per the RBI directive, Bank has updated its LCR computation methodology, which was audited by the Bank's statutory auditor on 30.05.2020, after that Bank has been calculated LCR as per the revised computation methodology.

The average LCR for the quarter ending Sept 2020 was 147.89% comfortably above RBI prescribed minimum requirement. Average cash outflows were Rs.1402.60 Crore, Average cash inflows were Rs.163.04 Crores. Average High Quality Liquid Assets were Rs.1833.23 Crores of the quarter ending Sept 2020.

		Sept Quarter- 2020-21	
		Total Unweighted Value (average)	Total Weighted Value (average)
	High Quality Liquid Assets		
1	Total High Quality Liquid Assets (HQLA)		1833.23
	Cash Outflows	0.00	0.00
2	Retail deposits and deposits from small business customers, of which:	5071.69	318.39
(i)	Stable deposits	3775.54	188.78
(ii)	Less stable deposits	1296.15	129.61
3	Unsecured wholesale funding, of which:	1605.57	898.19
(i)	Operational deposits (all counterparties)	0.00	0.00
(ii)	Non-operational deposits (all counterparties)	1605.57	898.19
(iii)	Unsecured debt	0.00	0.00
4	Secured wholesale funding	0.00	0.00
5	Additional requirements, of which	836.70	56.06
(i)	Outflows related to derivative exposures and other collateral requirements	0.00	0.00
(ii)	Outflows related to loss of funding on debt products	0.00	0.00
(iii)	Credit and liquidity facilities	836.70	56.06
6	Other contractual funding obligations	126.12	126.12
7	Other contingent funding obligations	127.59	3.83
8	Total Cash Outflows	7767.66	1402.60
	Cash Inflows	0.00	0.00
9	Secured lending (e.g. reverse repos)	0.00	0.00
10	Inflows from fully performing exposures	78.14	78.10
11	Other cash inflows	162.13	84.94

12	Total Cash Inflows	240.26	163.04
13	Total Cash Outflows less Total Cash Inflows		1239.56
14	25% of Total Cash outflows		350.65
15	Total Net Cash Outflows [Higher of 15 or 16]		1239.56
	Liquidity coverage ratio (%)		147.89

THE NAINITAL BANK LIMITED
(Regd. Office: G.B.Pant Road, Nainital)

MINUTES OF THE MEETING OF INTERNAL RISK MANAGEMENT COMMITTEE HELD

ON 29.10.2020 AT NAINITAL

PRESENT

1. Dinesh Pant

Chairman & CEO

- | | |
|---------------------------|-----------------------------|
| 2. Shri O.P.Jagarwal | COO & CFO |
| 3. Shri B .K.Joshi | Vice President |
| 4. Shri H C Pant | Vice President |
| 5. Shri B.B.Pandey | Chief Risk Officer |
| 6. Deepak Bisht (Invitee) | Associate Vice President IT |

At the outset Shri Dinesh Pant, Chairman & CEO of the bank welcomed the members and chaired the meeting. There after the agenda was taken up item wise.

Item No. 1 To read and confirm the minutes of the meeting of Internal Risk Management Committee held on 28.10.2020.

The minutes of the meeting of Internal Risk Management Committee held on 28.10.2020 was taken as read and it was resolved to confirm the same.

Item No. 2 To approve Pillar III Disclosure as on 30.09.2020 and to authorize the IT department to display it on Bank's website.

The Committee was informed that the revised capital adequacy framework, popularly known as Basel-III, issued by the Basel Committee on Banking Supervision (BCBS) is based on three-mutually reinforcing Pillars, viz. minimum capital requirements, supervisory review and market discipline. For ensuring market discipline, banks are required to make certain minimum disclosures including leverage ratio also.

The Committee pursued the note placed before it and authorized the IT department to display the same on Bank's web site.

Item No. 3 To approve Liquidity Coverage Ratio Disclosure as on 30.09.2020 and to authorize the IT department to display it on Bank's website.

The committee was informed that as per Basel Committee for Banking Supervision (BSBS) bank should have an adequate stock of unencumbered high quality liquid assets (HQLAs) to survive a significant liquidity stress lasting for a period of 30 days. Liquidity Coverage

Ratio(LCR) is defined as a ratio of HQLAs to the total net cash outflows estimated for the next 30 calendar days.

The average LCR for the quarter ending Sept 2020 was 147.89% comfortably above RBI prescribed minimum requirement. Average cash outflows were Rs.1402.60 Crore, Average cash inflows were Rs.163.04 Crores. Average High Quality Liquid Assets were Rs.1833.23 Crores of the quarter ending Sept 2020.

Item No. 04 To Consider CRAR position as of 30.09.2020.

The Committee perused the note of CRAR as of 30.09.2020. The committee was informed that CRAR as of 30.09.2020 is 12.61% which is above the minimum prescribed limits i.e.12% as per ICAAP Policy that Bank, CRAR has been reduced by 116 basis point from September 2019 quarter to September 2020 quarter ,CRAR reduced due to increase in market risk weighted assests.

Further, committee was informed that Market risk weighted assets increased on quarterly basis due to increase of Non SLR portfolio by Rs.191.31 crs from Sept 2019 quarter to Sept 2020 quarter from Rs.220.58 crs to Rs.411.89 crs. Non SLR portfolio weighted average maturity increased from 1.31 years to 4.15 years from Sept 2019 quarter to Sept 2020 quarter which has increased the modified duration of Non SLR portfolio and further increase of market risk weighted assets.

	Basel III	Basel II	Basel III	Basel II	% change from Sept 2019 to Sept 2020- BASEL III
	Sept 2020	Sept 2020	Sept 2019	Sept 2019	
Total Capital (A) (Rs. In Lakhs)(a+b)	59284.76	59284.76	65084.20	65084.20	-8.91%

Common Equity Tier 1 Capital (a)	56333.90	55412.52	62962.17	62216.05	-10.53%
Tier 2 Capital (b)	2950.86	3872.23	2122.03	2868.15	39.06%
Risk Weighted Assets (B) (Rs. In Lakhs)(c+d+e)	470180.96	457328.43	472561.79	464096.28	-0.50%
Credit Risk Weighted Assets (c)	360322.30	360322.30	398702.26	398702.26	-9.63%
Market Risk Weighted Assets (d)	62906.88	55271.22	28345.88	24937.44	121.93%
Operational Risk Weighted Assets (e)	46951.78	41734.91	45513.65	40456.58	3.16%
CRAR(%) (CET 1 Ratio+Tier 2 Ratio)	12.61%	12.96%	13.77%	14.03%	116 BASIS POINT DECREASE
CET 1 Capital Ratio (a/B)	11.98%	12.12%	13.32%	13.41%	134 BASIS POINT DECREASE
Tier 2 Capital Ratio (b/B)	0.63%	0.85%	0.45%	0.62%	18 BASIS POINT INCREASE

The Committee further advised to place CRAR position as of 30.09.2020 before Board of Directors in its next meeting.

Item No. 05 To Consider Monitoring of Advances Limits of the quarter ended 30.09.2020

The Committee perused the note on monitoring of advances limits of the quarter ended

30.09.2020. The committee was informed that all the credit exposures defined in Loan Policy

Document of the Bank were within the prudence limit.

Item No. 06 To consider Assessment/Measurement of Operational Risk as on 30.09.2020 vs 30.06.2020

The Committee perused the note on assessment/measurement of **operational risk as on 30.09.2020 vs 30.06.2020**. The data received from concerned department as on September 2020 was aggregated and data comparison done on quarterly basis i.e. September 2020 vs June 2020.

Item No. 07 To Consider the early warning signal data as of 30.09.2020.

The Committee perused the note of Early Warning Signal data as of 30.09.2020. The committee was informed that early warning signals in accounts having exposure of Rs.2 crore and above require close monitoring and should be addressed at the earliest so as to avoid risk. Committee further directed to apprise Credit Monitoring Department about the Early Warning Signal visible in various credit accounts in respect of 30.09.2020 data and advised that Credit Monitoring Department should send the letter to respective Regional Heads and should advise the regional heads to follow up with the Branches to remove the discrepancy pointed out in respective accounts

Item No. 08 To apprise the committee about Operational Risk Loss data outstanding position as of 30.09.2020.

The Committee perused the note on Operational Risk Loss data outstanding position as of 30.09.2020 and also the position of previous quarter i.e. June 2020 was placed before the committee. The committee discussed on the parameters with reason of operational risk which are pending more than last one year without any change.

The Committee advised to the department to place the agendas before the Board in its next Board meeting.

The meeting, thereafter, concluded with the vote of thanks to the chair.

Place: Nainital

Dinesh Pant

Date: 29/10/2020

Chairman & CEO.