Basel II Pillar 3 Disclosures

Disclosures under Pillar 3 in terms of New Capital Adequacy Framework (Basel II) of Reserve Bank of India

I. Scope of application

a. The framework of disclosures applies to The Nainital Bank Ltd.

b. The Bank has No Subsidiaries both domestic and foreign.

c. The bank does not have any investment in an insurance entity.

II. Capital structure

a. The Tier I capital of the Bank consists of equity capital and various types of reserves. The tier II capital consists of Revaluation Reserves and Provisions on Standard Assets.

b. **The Tier 1 capital of the bank is as under:**

(Amount in Rs. Crore)

i)	Total Tier I Capital	166.29
	Out of which:	
ii)	Paid up share capital	30.00
iii)	Reserves excluding revaluation reserves	138.48
iv)	Total Deductions	2.19

c. The Total amount of Tier 2 capital of the bank (net of deduction from tier 2 capital) is Rs. 17.62 Crore.

d. The total eligible capital comprises of:

(Rs in Crores)

Tier – I Capital	166.29
Tier – II Capital	17.62
TOTAL	**183.91**

III. Capital Adequacy

a. Bank maintains capital to cushion the risk of loss in value of exposure, businesses etc. so as to protect the depositors and general creditors against losses. Bank has a well defined Internal Capital Adequacy Assessment Policy (ICAAP) to comprehensively evaluate and document

all risks and substantiate appropriate capital allocation so as to evolve a fully integrated risk/capital model for both regulatory and economic capital.
In line with the guidelines of the Reserve Bank of India, the Bank has adopted Standardised Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Standardized Duration Approach for Market Risk for computing CRAR.

The capital requirement is affected by the economic environment, the regulatory requirement and by the risk arising from bank's activities. The purpose of capital planning of the bank is to ensure the adequacy of capital at the times of changing economic conditions, even at times of economic recession. In capital planning process the bank reviews:

- Current capital requirement of the bank
- The targeted and sustainable capital in terms of business strategy and risk appetite.
- The future capital planning is done on a three-year outlook.

The capital plan may be revised on an annual basis. The policy of the bank is to maintain capital as prescribed in the Internal Capital Adequacy Assessment Policy. At the same time bank has a policy to maintain capital to take care of the future growth in business so that the minimum capital required is maintained on continuous basis. On the basis of the estimation bank will raise capital in Tier-1 or Tier-2 with the approval of Board of Directors of the Bank. The Capital Adequacy position of the bank is reviewed by the Board of the Bank on quarterly basis.

b. The position of bank's Risk Weighted Assets (RWA), Minimum Capital Requirement and Actual Capital Adequacy as on 31.03.2009 are as under:

(i) Capital requirements for credit risk:	RWA/ Capital (Amount in Rs. Crore)
Portfolios subject to Standardised approach in respect of credit risk	2423.10
Securitisation exposures	-
Total RWAs in respect of Credit Risk	1070.99
Minimum Capital Requirement for Credit Risk @ 9.00% of the RWAs	96.39
(ii) Capital requirements for market risk in respect of :	
Total RWAs in respect of Market Risk	190.10

Minimum Capital Requirement for Market Risk @ 9.00% of the RWAs	17.11
(iii) Capital requirements for operational risk :	
RWA as per Basic Indicator approach	142.50
Minimum Capital Requirement for operational Risk under Basic indicator approach	12.83
(iv) Total Capital & CRAR	
Total RWAs in respect of Credit, Market and Operational risk	1403.61
Minimum Capital Requirement for Credit, Market & Operational Risk @ 9.00% of the RWAs	126.33
Actual Position	
Eligible Tier I Capital	166.29
Eligible Tier II Capital	17.62
Total Eligible Capital	183.91
CRAR	13.10%
Tier I capital to Total RWA	11.85%

IV. General disclosures in respect of Credit Risk

a. The policy of the bank for classifying bank's loan assets is as under:
NON PERFORMING ASSETS (NPA): A non performing asset (NPA) is a loan or an advance where;

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' in respect of an 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 crops,
v) the installment of principal or interest thereon remains overdue for one crop season for long duration crops.

An OD/CC 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'** .
An amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

Non Performing Assets of the Bank are further classified in to three categories as under:

Sub standard Assets

A sub standard asset would be one, which has remained NPA for a period less than or equal to 12 months. All the recovery measures are relevant in substandard assets also. If the entire overdues are recovered by way of cash recovery, the account can be upgraded to standard category immediately. Similarly, if an account is classified as NPA due to technical reasons, the account shall be upgraded on clearance of technical reasons.

Doubtful Assets

An asset would be classified as doubtful if it remained in the sub standard category for 12 months.

Substandard and Doubtful accounts which are subjected to restructuring/rescheduling, can be upgraded to standard category only after a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period.

Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection. In Loss assets, realizable value of security available is not more than 10% of balance outstanding/ dues. Since security back up will not be available, the restructuring/ rehabilitation, if required, is considered with utmost care.

b. Strategies and Processes:

The bank has a well defined Loan Policy & Investment Policy covering the important areas of credit risk management as under:

- Exposure ceilings to different sectors of the economy, different types of borrowers and their group and industry
- Fair Practice Code in dispensation of credit
- Discretionary Lending Powers for different levels of authority of the bank
- Processes involved in dispensation of credit – pre sanction

inspection, rejection, appraisal, sanction, documentation, monitoring, and recovery.
- Fixation of pricing

b. **The Credit Risk philosophy, architecture and systems of the bank are as under:**

Credit Risk Philosophy :

- To Optimise the Credit and return envisaged in order that the Economic Value Addition to Shareholders is maximized and the interests of all the Stakeholders are protected alongside ensuring corporate growth and prosperity with safety of bank's resources.
- To regulate and streamline the financial resources of the bank in an orderly manner to enable the various channels to incline and achieve the common goal and objectives of the Bank.
- To comply with the national priorities in the matter of deployment of institutional finance to facilitate achieving planned growth in various productive sectors of the economy.
- To instill a sense of credit culture enterprise-wide and to assist the operating staff.
- To provide need-based and timely availability of credit to various borrower segments.
- To strengthen the credit management skills namely pre-sanction, post-sanction monitoring, supervision and follow-up measures so as to promote a healthy credit culture and maintain quality credit portfolio in the bank.
- To deal with credit proposals more effectively with quality assessment, speed and in full compliance with extant guidelines.
- To comply with various regulatory requirements, more particularly on Exposure norms, Priority Sector norms, Income Recognition and Asset Classification guidelines, Capital Adequacy, Credit Risk Management guidelines etc. of RBI/other Authorities.

Architecture and Systems of the Bank:

- A Sub-Committee of Directors has been constituted by the Board to specifically oversee and co-ordinate Risk Management functions in the bank.
- Credit Policy Committee has been set up to formulate and implement various credit risk strategy including lending policies and to monitor Bank's Enterprise-wide Risk Management function on a regular basis.
- Formulating of policies on standards for credit proposals, financial covenants, rating standards and benchmarks.
- Credit Department deal with identification, measurement,

monitoring and controlling credit risk within the prescribed limits.

- Enforcement and compliance of the risk parameters and prudential limits set by the Board/regulator etc.,
- Laying down risk assessment systems, developing MIS, and monitoring quality of loan portfolio, identification of problems, correction of deficiencies.
- Improving credit delivery system upon full compliance of laid down norms and guidelines.

d. The Scope and Nature of Risk Reporting and / or Measurement System:

The Bank has in place a robust credit risk rating system for its credit exposures. An effective way to mitigate credit risks is to identify potential risks in a particular asset, maintain a healthy asset quality and at the same time impart flexibility in pricing assets to meet the required risk-return parameters as per the bank's overall strategy and credit policy.

The bank's robust credit risk rating system is based on internationally adopted frameworks and global best practices and assists the bank in determining the Probability of Default and the severity of default among its loan assets, and thus allow the bank to build systems and initiate measures to maintain its asset quality.

e. The Quantitative Disclosures in respect of Credit Risk are as under:

(Amount in Rs. Crores)

Industry Type	**Total Credit O/S**	**SS**	**Doubtful**	**Loss**	**Total**
Iron and Steel	**2156.16**	0	0	0	**0**
Other Metal and Metal Products	**693.20**	0	0	0	**0**
Electricity	**2972.53**	0	0	0	**0**
Vegetable Oils and vanaspati	**1154.32**	0	0	0	**0**
Other Industries	**106924.17**	688.47	936.51	273.16	**1898.14**

The Bank's gross credit exposure to any particular indus try has not exceeded 5% of the Bank's gross credit exposure.

f. Residual maturity breakdown of assets

(Amount in Rs. Crores)

Time Bucket	Advances	Investment	Total Assets	%age
TOTAL	**1120.02**	**560.60**	**2514.44**	**100%**
1 day	9.33	80.78	186.74	7.43
2 - 7 days	45.71	0.04	79.64	3.17
8 -14 days	52.99	0	75.13	2.99
15- 28 days	67.77	2.00	82.83	3.29
29days - 3months	77.61	78.36	182.09	7.24
>3months-6months	18.17	0.60	155.17	6.17
>6months-1yr	39.25	1.01	355.49	14.14
>1yr-3yrs	597.18	18.28	716.07	28.48
>3yrs-5yrs	89.21	11.93	152.49	6.06
>5yrs	122.80	367.60	528.80	21.03

e. Disclosures in respect of Non Performing Advances and Investments:

Sr. No.	Asset Category	Amount in Rs. Crores
(i)	**NPAs (Gross):**	
	Substandard	6.88
	Doubtful 1	4.90
	Doubtful 2	3.69
	Doubtful 3	0.78
	Loss	2.73
(ii)	**Net NPAs**	
	Total	18.98
(iii)	**NPA Ratios**	
	Gross NPAs to gross advances	1.67
	Net NPAs to net advances	0
(iv)	**Movement of NPA(Gross)**	
	Opening balance	18.53
	Additions	11.48
	Reductions	11.03
	Closing balance	18.98
(v)	**Movement of provisions for NPAs**	
	Opening balance	6.38
	Closing balance	6.68
(vi)	**Non Performing Investments**	

	Amount of Non-Performing Investments	0.04 Cr
	Amount of provisions held for non-performing investment	0.04 Cr
(vii)	**Movement of provisions for depreciation on investments during the year**	
	Opening balance	0.04 Cr
	Provisions made during the period	0
	Write-off	0
	Closing balance	0.04 Cr

V. Credit risk: disclosures for portfolios subject to the standardised approach

a. Under Standardized Approach, the bank accepts rating of all RBI approved ECAI (External Credit Assessment Institution) namely CARE, CRISIL, Fitch, and ICRA for domestic credit exposures.

The amount of exposure after risk mitigation subject to Standardized Approach (rated and unrated) in the following three major risk buckets are as under:

Category of Risk Weight (Exposure)	**(Amount in Cr.)**
Below 100 % risk weight	1754.53
100 % risk weight	401.88
More than 100 % risk weight	120.84
Total CRM Deducted	105.59
Total Risk Weighted Assets	1039.21

VI. Credit Risk mitigation:

a. Bank obtains various types of securities (which may also be termed as collaterals) to secure the exposures (Fund based as well as non-fund based) on its borrowers.
Generally following types of securities (whether as primary securities or collateral securities) are taken:

1. Moveable assets like stocks, moveable machinery etc.
2. Immoveable assets like land, building, plant & machinery.
3. Bank’s own deposits
4. NSCs, IVPs, KVPs, Govt. Bonds, RBI Bonds, LIC policies, etc.
5. Cash Margin against Non-fund based facilities
6. Gold Jewellery

The bank has well-laid out policy on valuation of securities charged to the bank.

The Bank has applied securities mentioned at sr.no.3 to 6 above as Credit Risk Mitigants.

The main types of guarantors against the credit risk of the bank are :

- Individuals (Personal guarantees)
- Corporates
- Central Government
- State Government
- CGFTSI

CRM collaterals are mostly available in Loans Against Bank's Own Deposit and Loans against Government Securities, LIC Policies/ Shares.
CRM securities are also taken in non fund based facilities like Guarantees and Letters of Credit.
Eligible guarantors (as per Basel II) available as CRM in respect of Bank's exposures are mainly Central/ State Government, ECGC, CGFTS.
The total Credit Risk Mitigants (CRM's) eligible for deduction from the outstanding exposures as on 31.03.2009 is to the tune of Rs 10510.70 crores.

VII. Securitisation:

The Bank does not have any case of its assets securitised as on 31.3.09.

VIII. Market risk in trading book

The Bank defines market risk as potential loss that the Bank may incur due to adverse developments in market prices.

Bank has put in place a proper system for calculating capital charge on Market Risk on Trading Portfolio as per RBI Guidelines, viz., Standardised Duration Approach. The capital charge thus calculated is converted into Risk Weighted Assets. The aggregated Risk Weighted Assets for credit risk, market risk and operational risk are taken in to consideration for arriving at the CRAR.

IX. Operational risk

In line with RBI guidelines, Bank has adopted the Basic Indicator Approach to compute the capital requirements for Operational Risk.
Capital Change for operational Risk as on 31.03.2009 was 12.82 Cr. and Risk Weighted Assets for Operational Risk as on 31.03.2009 was Rs 142.50 Cr.

X. Interest rate risk in the banking book (IRRBB)

a. The interest rate risk is measured and monitored through two approaches:

(i) Earning at Risk (Traditional Gap Analysis) (Short Term):
The immediate impact of the changes in the interest rates on net interest income of the bank is analyzed under this approach. The Earning at Risk is analyzed under different scenarios for domestic operations as under:

1. Yield curve risk: A parallel shift of 1% is assumed for assets as well as liabilities.
2. Bucket wise different yield changes are assumed for the assets and the same are applied to the liabilities as well.

(ii) Economic Value of Equity (Duration Gap Analys is) (Long term)

a. Economic Value of Equity is done by calculating modified duration of assets and the liabilities to arrive at the modified duration of equity. Impact on the Economic Value of Equity is analyzed for a 200 bps rate shock at regular intervals for domestic operations through Duration Gap Method.

b. The net impact on NII of the bank against 100 bps movement in interest rates is Rs. 92.71 Crore for domestic operations.

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