

# **IndusInd Bank**

## **DISCLOSURES UNDER BASEL III CAPITAL REGULATIONS – 30<sup>th</sup> June 2021**

### **DF-2: Capital Adequacy**

#### **Applicable Regulations:**

The Basel III capital regulation has been implemented from April 1, 2013 in India in phases. The Basel III Capital Regulations have been consolidated in Master Circular – Basel III Capital Regulations vide circular No. DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015 and clarifications and amendments thereto issued from time to time. As per Basel III Capital Regulations, the CCB was to be implemented in tranches of 0.625 per cent and the transition to full CCB of 2.5 per cent was set to be completed by March 31, 2019. The implementation of the last tranche of 0.625 per cent of the CCB was earlier deferred from March 31, 2019 to March 31, 2020. Considering the potential stress on account of COVID-19, RBI has further deferred the implementation of the last tranche of 0.625 per cent to October 1, 2021.

#### **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. This 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 and other exposures, as also, capital requirements in the trading book, on an ongoing basis and operational risk.

These guidelines also incorporate instructions regarding the components of capital and capital charge required to be provided for by the banks for credit, market and operational risks. It deals with providing explicit capital charge for credit and market risk and addresses the issues involved in computing capital charges for interest rate related instruments in the trading book, equities in the trading book and foreign exchange risk (including gold and other precious metals) in both trading and banking books. Trading book for the purpose of these guidelines includes securities under the Held for Trading category, Available For Sale category, open gold position limits, open foreign exchange position limits, trading positions in derivatives, and derivatives entered into for hedging trading book exposures.

Basel III capital regulations have been implemented in India with effect from April 1, 2013. In order to ensure smooth migration to Basel III without aggravating any near term stress, appropriate transitional arrangements were made. The transitional arrangements for capital ratios began as on April 01, 2013. However, the phasing out of non-Basel III compliant regulatory capital instruments began as on January 01, 2013. Capital ratios and deductions from Common Equity will be fully phased-in and is presently scheduled for implementation with effect from 1<sup>st</sup> October 2021.

#### **Minimum capital requirements:**

The Bank is subject to the capital adequacy guidelines laid down by Reserve Bank of India, which are based on the framework of the Basel Committee on Banking Supervision. As per Basel III Capital Regulations, the Bank is required to maintain a minimum Capital to Risk Weighted Assets (CRAR) of 10.875% (including Capital Conversion Buffer of 1.875%). The Basel III Capital Regulations are implemented effective from April 1, 2013 in a phased manner. The minimum capital required to be maintained by the Bank for the period ended June 30, 2021 is 10.875% with minimum Common Equity Tier 1 (CET1) of 7.375% (including CCB).

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, interest rate, derivatives and forex on its profitability and capital adequacy.

The assessment of future capital needs is effectively done based on the business projections, asset mix, operating environment, growth outlook, new business avenues, regulatory changes and risk and return profile of the business segments. The future capital requirement is assessed by taking cognizance of all the risk elements viz. Credit, Market and Operational risk and mapping these to the respective business segments.

**The Summary of Capital requirements for Credit Risk, Market Risk and Operational Risk as on June 30, 2021 is mentioned below:**

<b>Risk Type</b>	<b>Rs in mio</b>
<b>Capital requirements for Credit Risk</b>	<b>206,603</b>
Portfolio Subject to Standardized approach	206,603
Securitization exposures	-
<b>Capital requirements for Market Risk</b>	<b>8,719</b>
<b>Standardized Duration Approach</b>	
Interest Rate Risk	4,071
Foreign Exchange Risk (including gold)	304
Equity Risk	4,344
<b>Capital requirements for Operational Risk</b>	<b>29,808</b>
Basic Indicator Approach	29,808
<b>Minimum Capital requirements at 9%</b>	<b>245,130</b>
<b>Minimum CRAR + CCB at 10.875%</b>	<b>296,200</b>
<b>Total Capital Funds</b>	<b>459,621</b>
<b>CRAR #</b>	<b>17.57%</b>

# including exposure at IFSC Banking Unit (GIFT City)

#### **Organisation Structure:**

#### **Integrated Risk Management: Objectives and Organization Structure**

The Bank has established an Enterprise-wide Risk Management Department, independent of the Business segments, responsible for Bank-wide risk management covering Credit risk, Market risk (including ALM) and Operational risk. The Risk Management Department focuses on identification, measurement, monitoring and controlling of risks across various segments. The Bank has been progressively adopting the best International practices so as to continually reinforce its Risk Management functions.

#### **Organisation Structure:**

The set-up of Risk Management Department is hereunder:



The Chief Risk Officer (CRO) reports to MD and CEO of the Bank. The Risk Management Committee (RMC) has a complete oversight on the functioning of various sub committees set up for identification, measurement, management and mitigation of risks faced by the Bank.

The Bank undertakes a range of business activities necessitating it to identify, measure, control, monitor and report risks effectively. The Board of Directors and Risk Management Committee have oversight on the risk assumed by the Bank. Separate Committees, as specified below, are set up to manage and control various risks:

- Risk Management Committee (RMC)
- Credit Risk Management Committee (CRMC)
- Market Risk Management Committee (MRMC)
- Asset Liability Management Committee (ALCO)
- Operational Risk Management Committee (ORMC)
- Business Continuity Management Steering Committee

The following table provides a brief overview on the roles of the various Risk Committees

<b>Committee</b>	<b>Roles in brief</b>
Credit Risk Management Committee (CRMC)	Portfolio Risk, Risk Policies, Counterparty risk, Country risk, Risk based pricing and Basel guidelines implementation
Market Risk Management Committee (MRMC)	Market Risk Appetite, Market Risk Limits on Trading Portfolio; Portfolio Sensitivity for movement in Market Factors; Valuation Methodologies, VaR and Stressed VaR framework; Model Validation; Credit Exposure due to Market Related Instruments; Market Risk capital charge and Market Risk Management policy
Asset Liability Management Committee (ALCO)	Liquidity Risk; Interest Rate Risk – Strategy and Management; Funding Strategy; Asset-Liability Strategy and Gap Management; Composition and Pricing for Assets, Liabilities and Off Balance Sheet instruments, Maturity Profiles, Contingency Funding strategies and Asset-Liability Management (ALM) Policy.
Operational Risk Management Committee (ORMC)	Oversight on effective management of Operational Risk, Review Operational Risk Policy, Operational Risk Profile, Review and monitor adequacy and effectiveness of management of operational risks and their controls, Operational risk losses Monitoring of Key Risk Indicators (KRIs) in Red Zone and any other operational risk related aspects.
Business Continuity Management Steering Committee	Review BCM Policy, BCP plans for various units, critical processes review and any specific actions, Invoke BCP, Disaster Management and any other BCP related aspects.

Bank has articulated various risk policies which specify the risks, controls and measurement techniques. The policies are framed keeping risk appetite as the central objective. Against this background, the Bank identifies a number of key risk components. For each of these components, the Bank determines a target that represents the Bank’s perception of the component in question.

The risk policies are vetted by the sub-committees, viz. CRMC, MRMC, ALCO, ORMC, etc. and are put forth to RMC, which is a sub-committee of the Board. Upon vetting of the policies by RMC, the same are placed for the approval of the Board of Directors and implemented.

Bank has put in place a comprehensive policy on ICAAP, which presents a holistic view of the material risks faced, control environment, risk management processes, risk measurement techniques, capital

adequacy and capital planning. The Capital Management framework is complemented by the Risk Management framework which covers the policies, processes, methodologies and frameworks established for management of material risks. The Bank also undertakes Stress Testing as an integral part of the ICAAP to assess the impact of extreme but possible scenarios on the capital adequacy position of the Bank.

Policies are periodically reviewed and revised to address the changes in the economy / banking sector and Bank's risk profile. Monitoring of various risks is undertaken at periodic intervals and a report is submitted to Top Management / Board.

### **Credit Risk**

Bank manages credit risk comprehensively; both at Transaction level and at Portfolio level. Some of the major initiatives taken are listed below :

- Bank uses a robust Risk rating framework for evaluating credit risk of the borrowers. The Bank uses segment-specific rating models that are aligned to target segment of the borrowers.
- Risks on various counter-parties such as corporates, banks, are monitored through counter-party exposure limits, also governed by country risk exposure limits in case of international trades.
- Bank manages risk at the portfolio level too, with portfolio level prudential exposure limits to mitigate concentration risk.
- Bank has a well-diversified portfolio across various industries and segments, as illustrated by the following data.
  - o Retail and schematic exposures (which provide wider diversification benefits) account for as much as 58% of the total fund-based advances.
  - o Bank's corporate exposure is fully diversified over 85 industries, thus insulated/minimised from individual industry cycles.

Above initiatives support qualitative business growth while managing inherent risks within the risk appetite.

### **Market Risk**

Key sources of Market Risk are Liquidity Risk, Interest Rate Risk, Price Risk and Foreign Exchange Risk. Bank has implemented state-of-the-art Treasury and Market Risk Management systems that support robust risk management capabilities and facilitates Straight-through Processing.

Market Risk is effectively managed through comprehensive framework which supports various measures such as Mark-to-Market, Sensitivity analysis, Value-at-Risk, Back testing, Stress Testing and monitoring through operational limits such as stop-loss limits, exposure limits, deal-size limits, PV position limits, etc. Market risk measurement and monitoring is governed through a comprehensive Market Risk Management Policy.

Market Risk Management Committee are convened on a periodic basis wherein detailed discussion on the Market movements and outstanding Treasury portfolio and the risk associated with it are deliberated.

### **Asset Liability Management (ALM)**

Bank's ALM system supports effective management of liquidity risk and interest rate risk, covering 100% of its assets and liabilities.

- Liquidity Risk is monitored through Liquidity Coverage Ratio, Structural Liquidity Gaps, Dynamic Liquidity position, , Liquidity Ratios analysis and Behavioural analysis, with prudential limits.
- Interest Rate Sensitivity is monitored on Earning perspective and Economic Value perspective through prudential limits for Rate Sensitive Gaps, Modified Duration and other risk parameters.

- Interest Rate Risk on the Investment portfolio is monitored through Value at Risk and Risk Sensitivities on a daily basis. Optimum risk is assumed through duration, to balance between risk containment and profit generation from market movements.

ALCO meetings are convened frequently wherein detailed analysis are presented on liquidity position, interest rate risks, product mix, business growth v/s budgets, interest rate outlook, which helps to review the business strategies regularly and undertake new initiatives.

### **Operational Risk**

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events. The Operational Risk Management Policy documents the Bank's approach towards management of operational risk and defines roles and responsibilities of various stakeholders within the Bank. Based on this Policy, the Bank has initiated several measures to manage Operational Risk. The Bank has put in place a structure to effectively manage operational risk through the formation of several internal committees viz. Operational Risk Management Committee (ORMC), Sub-ORMC, Fraud Risk Management Committee, BCM Steering Committee.

Bank has implemented various Operational Risk management tools such as Risk and Control Self-Assessment (RCSA), KRIs monitoring and Loss Data collection (Basel 8X7 matrix) including Near Miss Events. Bank assesses each new Product and Process enhancements under Operational Risk Assessment Process (ORAP) framework.

The Bank has adopted Business Continuity Policy wherein critical processes other enablers like applications / systems have been identified, recovery plans has been put in place for these critical processes and applications / systems to ensure timely recovery of the Bank's critical operations and services in the event of any crisis event. Regular mock drills are carried out to ascertain BCP preparedness. Business Continuity Steering Management Committee (BCM SC) comprising of senior functionaries of the Bank monitors BCM framework implementation in the Bank.

As per the RBI guidelines, the Bank is following the Basic Indicator Approach for computing capital for Operational Risk.

### **Systems Risk**

The Bank deploys best Information Security capabilities, where we continuously strive for excellence in the respective areas of tools and practices which our Bank is using to protect the bank IT infrastructure and information.

The bank has adopted COBIT framework, ITIL framework and ISO/IEC27001 standards. COBIT, a globally accepted and proven framework, provides best practices & tools for monitoring and managing IT activities. It enables clear policy development and good IT practice. This has helped us to manage IT related risks and ensure compliance, business continuity, security and privacy. Bank's Data-Centres, IT and Support functions are ISO27001:2013 certified.

The board approved Information Security Policy and Cyber Security Policy mandates control objectives in all domains i.e.

Governance including complete coverage of security operations and reporting.

Data loss and fraud prevention including monitoring for and protecting against insider threats.

Cyber risk and cyber intelligence including maintaining current knowledge of security threats and context for the threat response.

Security architecture including applying security best practices to network and application architecture.

Identity and access management including ensuring adequate authentication, authorization and auditing techniques.

Investigations and forensics including to ensure complete investigations.

Security operations including real-time monitoring, analysis, and triage of threats.

The Information Security Department identifies risks, vulnerabilities and the solutions, securing critical information and enforcement activities related to Information & Cyber Security. Various other departments, divisions and groups of the Bank assist in implementation of Information & Cyber Security practices. These are respectively measured and the same is presented in the form of Dashboard to the Bank's top management.

The Bank has a board approved Cyber Crisis Management Plan in place. This guides the Bank in mitigating the risks from Cyber Security incidents by providing a complete coverage of response to various cyber security incidents, effectively and efficiently. This establishes the Cyber Security resilience vision of the bank. The framework and processes help consistent approaches during various stages of detection, identification, containment, eradication, and recovery from specific Cyber Security incidents.

The Bank has also tied with external experts for Cyber Security Incident Response Management. The Incident Response Plan defines major categories of incidents and incident handling procedures. In case of a critical cyber security incident, external experts are having retainer ship arrangements for assisting the bank, for bringing in crucial expertise during the incident response. The Bank has cyber security incident insurance in place.

The bank has 24x7 onsite Incident response team to monitor alerts and advisories from various sources for immediate assessment and necessary action.

The Bank has a Security Operations Center (SOC). The Bank's security services partner provides the services through a combination of onsite and offsite resources. The Bank has invested in a leading SIEM solution, Anti-phishing, Anti-malware, DDoS protection services are also being delivered. Alerts are monitored and responded to by the remote security team on a 24x7 basis. Qualified security event or series of events that contributes to a successful attack or breach which causes significant disruption of business operations and/or breach of information/data, are logged as security incidents.

Insider Treats / Internal Frauds are mitigated and monitored through various channels like the Surveillance Unit, etc. The Bank communicates awareness messages and tips through various digital channels, e-learning, classroom training and workshops. The program is aimed at raising awareness around cyber frauds, safe use of internet and online banking, recognizing and avoiding phishing/vishing attempts, tips for safe use of credit/debit cards, protection from malware and malicious websites et al. The awareness program addresses internal users, customers and partners.

From technology perspective, the bank has taken several measures to detect and protect against such threats in timely manner. The Bank has subscribed to services to detect any Rogue mobile application and phishing site detection of IndusInd Bank and for the phishing sites. On confirmation by the Bank about a suspected app/site to be unauthorized, the takedown is immediately commenced.

Bank has also subscribed to DDoS protection services from its ISPs. Additionally, the Web Application Firewall provides protection against application level DOS attacks. The bank has taken a special initiative for feeds from the Dark Web through Threat Intelligence Services.

Bank has a defined Vulnerability management plan which is used to reduce inherent risks in an application or system. The idea behind this practice is to discover and patch vulnerabilities before issues are exposed or exploited. The Vulnerability management plan practices rely on testing, auditing, and scanning to detect issues.

Bank has a detailed and periodic Disaster recovery strategies protect from loss or damage due to unforeseen events, for eg. ransomware, natural disasters, or single points of failure. Bank has implemented the Disaster recovery strategies to recover information, restore systems, and resume operations. These strategies are a part of the business continuity management (BCM) plan, designed to enable and maintain operations with minimal downtime.

Bank is using Cloud for services and have similar protections to application and infrastructure security but is more focused on cloud or cloud-connected components and information. The Bank Cloud security adds extra protections and tools to focus on the vulnerabilities that may come from Internet-facing services and shared environments, such as public clouds.

The bank is deploying threat hunting capabilities, which involves validating certain hypothesis for emerging threat scenarios.

The bank deploys variety of tools for fine grained authentication and authorizations to restrict unauthorized users from accessing private information. These measures help the Bank to prevent harms related to information theft, modification, or loss.

With the advent of IT service management at our bank, we were able to plan, design, implement, operate, support and improve IT services and align them with the business needs. It helped us to map the processes with the right process owners and right process champions, functions with clear roles and responsibility.

These various capabilities ensure that the bank is deploying safe and secure banking experience to the customers and hence trust in digital properties of the bank.

### **DF-3: Credit Risk: General Disclosures**

“Credit Risk” is defined as the probability / potential that the borrower or counter-party may fail to meet its obligations in accordance with agreed terms. It involves inability or unwillingness of a borrower or counter-party to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions.

#### **Credit Risk is made up of two components:**

1. **Transaction Risk (or Default Risk)**, which represents the risk arising from individual credit exposures and
2. **Portfolio Risk**, which represents the risk inherent in the portfolio of credit assets (concentration of assets, correlation among portfolios, etc.).

Credit risk is found in a variety of transactions across Bank’s portfolio including not only loans, off balance sheet exposures, investments and financial guarantees, but also the risk of a counterparty in a derivative transaction becoming unable to meet its obligations. Credit risk constitutes the largest risk to which the Bank is exposed. Bank has adequate system support which facilitates credit risk management and measurement across its portfolio. The system support is strengthened and expanded as and when new exposures are added to the Bank’s portfolio.

Bank has articulated comprehensive guidelines for managing credit risk as a part of Credit Risk Policy and related policies framework, Bank Risk Policy, Country Risk Policy, Loan Review Policy, Policy on Collateral Management, Sector/Industry risk assessment framework and Recovery Policy. Credit risk management systems used at the Bank have been implemented in accordance with these guidelines and best market practices. Credit risk management process focuses on both specific transactions and on groups of specific exposures as portfolios.

Bank’s Credit Risk Policy and related policies and systems are framed to achieve the following key objectives:

- Providing guide post for due diligence of the credit proposals based on the borrower’s cash flows and ability to repay.
- Defining Risk Appetite in alignment with business strategies and ensuring its compliance through regular monitoring

- Monitoring concentration risk in particular products, segments, geographies etc thereby avoiding concentration risk from excessive exposures to any particular products, segments, geographies etc.
- Assisting in building quality credit portfolio and balancing risks and returns in line with Bank's risk appetite
- Review and Monitoring of credit exposures and portfolio limits
- Tracking Credit quality migration
- Determining how much capital to hold against each class of assets
- Undertaking Stress testing to evaluate credit portfolio strength
- To develop greater ability to recognize and avoid potential problems
- Alignment of Risk Strategy with Business Strategy
- Adherence to regulatory guidelines

### **Credit Risk Management at specific transaction level**

The central objective for managing credit risk at each transaction level is development of risk measurement and monitoring systems that cover the entire life cycle of the exposure, i.e. opportunity for transaction, assessing the credit risk, granting of credit, disbursement and subsequent monitoring, identifying the obligors with emerging credit problems, remedial action in the event of credit quality deterioration and repayment or termination of the obligation.

The Credit Policies of the Bank stipulates applicability of various norms for managing credit risk at a specific transaction level and more relevant to the target segment of the obligors. It covers all the types of obligors, viz. Corporate, SME, Trader and Schematic Loans such as Loan against Property, Business Loan, Retail Agri, LAS, Gold Loan, Home Loan, Personal Loan, etc.

Major components of Credit Risk and related Policies are mentioned below:

- Defining Risk Appetite in line with business strategies
- Transaction with customer/ prospective customer is undertaken with an aim to build long term relationship.
- All the related internal and regulatory guidelines such as KYC norms, RBI prudential norms, etc. are adhered to while assessing the credit request of the borrower.
- Credit is granted with due diligence and detailed insight into the customer's circumstances and of specific assessments that provide a context for such credits.
- Facility is granted based on customer's creditworthiness, capital base or assets to assure that the customer is able to substantiate the repayment. Due regard is also placed to the industry in which the customer is operating, the business specific risks and management capability and their risk appetite.
- Regular follow-up of overall health of the borrower is undertaken to assess whether the basis of granting credit has changed.
- When loans and credits are granted to borrowers falling outside preferred credit rating, the Bank normally obtains sufficient collateral. However, collaterals are not the sole criterion for lending, which is generally done based on assessing the business viability of the borrower and the adequacy of the expected cash flows.
- Bank has defined exposures limit on the basis of internal risk rating of the borrower.
- Bank is particularly cautious while granting credits to businesses in affected or seasonal industries.
- Bank also grants unsecured credit to borrowers with high standing and low credit risk profile based on detailed financial analysis & established credit history.
- In terms of Bank's Country risk Policy, due caution is exercised when assuming risk in countries with an unstable economic or political scenario.

Beside the acceptability norms defined in the policies/manual for an individual transaction, Bank has also implemented various credit related product programmes which enables efficient appraisal, assessment, delivery, supervision and control of tailor made loan products targeted at specific customer segments.



Customers covered under Business Banking product programme are evaluated using a scoring/rating model developed based on segment specific risk profile.

Consumer Finance Division appraises loan application based on robust set criteria defined in the respective product programmes. Further as a mechanism to assess the credit quality, customers are also evaluated through application scoring models which are segment specific. Further, post disbursement, the quality of the account is tracked by means of a Behavioral score.

Customers under Credit Cards segment are evaluated by means of robust customer selection criteria that include variety of factors.

Bank has also put in place a detailed policy for portfolio acquisition which stipulates various criteria for asset selection including due diligence, transfer of risks and rewards of the underlying portfolio, credit enhancements, portfolio risk management and monitoring in accordance with RBI guidelines.

### **Credit Approval Committee**

In general, the Bank has put in place the principle of 'Committee' or 'Approval Grids' approach while according sanctions to credit proposals. This provides for an unbiased, objective assessment/evaluation of credit proposals. Such Committees include atleast one official from an independent department, which has no volume or profits targets to achieve. The official of the independent department is a mandatory member of the Credit Committee. The spirit of the credit approving system is that no credit proposals are approved or recommended to higher authorities unless all the members of the 'Committee' or 'Approval Grids' agree on the acceptability of the proposal in all respects. In case of disagreement the proposal is referred to next higher Committee whose decision to approve or decline with conditions is final.

All approvals are by constituted Credit Committees, with representation from Business as well as Risk Departments.

Following 'Approval Grids' are constituted:

#### **▶ Corporate & Commercial Banking Segment:**

- ☞ Powers are delegated to various credit committees at Zonal, Segment and Corporate Office level based on the internal risk rating. Presence of representative from Risk Management Department, Credit Risk Department and the Business vertical is required.
- ☞ Credit Committee 1 (Zonal level) & Credit Committee 2 (Segment Level)
- ☞ Corporate Office Credit Committee (COCC)
- ☞ Executive Credit Committee (ECC)

#### **▶ Consumer Banking (CB) Segment (A):**

Scheme of delegation under Consumer Banking Segment includes Vehicle financing, personal loans, housing loans and other schematic loans under multi-tier Committee based approach as under:

- ☞ Branch Credit Committee – Consumer Banking (BCC – CB)
- ☞ Regional Credit Committee – Consumer Banking (RCC - CB)
- ☞ Corporate Office Credit Committee – Consumer Banking (COCC- CB I & II)
- ☞ Executive Credit Committee

#### **▶ Consumer Banking (CB) Segment (B):**

The scheme of delegation under Consumer Banking Segment includes Loan against Property, Business loans, Retail Agri (KCC) and other schematic loans under multi-tier Committee based approach as under:

- ☞ Joint Sanction on Four Eye Principle
- ☞ Zonal Credit Committee ( ZCC)
- ☞ Corporate Office Credit Committee – I & II
- ☞ Executive Credit Committee

Apart from this, Bank has schematic loans also like Gold Loan & LAS which are sanctioned by branches / Operations upto defined limit of exposure under the respective product program. These are relatively smaller loans and fully secured by liquid collaterals.

Scheme of delegation of power applicable for all business segments are approved by Board of Directors.

The credit proposals which are beyond the delegated powers of ECC are placed to Committee of Directors (COD) for approval.

### **Risk Classification**

There exists a structured credit approval process including a comprehensive credit risk assessment process, which encompasses analysis of relevant quantitative and qualitative information to arrive at the internal credit rating of the Borrower. Bank monitors the overall health of its customers on an on-going basis to ensure that any signal of weakening of a customer's earnings or liquidity is detected as early as possible. As part of the credit process, customers are classified according to the credit quality in terms of internal rating, and the classification is regularly updated on receipt of new information/ changes in the factors affecting the position of the customer.

Bank has operationalized following risk rating/ scoring models basis on the target segment of the borrower:

- Large Corporate, Small & Medium Enterprises, NBFC, Gems & Jewellery, MFI and Real Estate Developers
- Trading entities, Capital Market Broker and Commodity Exchange Broker
- Financial Institutions/Primary Dealers and Banks
- Retail customers (Schematic Loans) – who are assigned credit scoring

Customers under Business Banking segment, Business Loans, Loan against credit card receivables are assessed for credit quality using a scoring/rating model. The score serves a measure to categorise the customers into various risk classes which are further calibrated to different risk grades. Bank has also implemented rating models for assessing risk under Lease Rental Discounting and Warehouse Receipts Financing products.

Rating grades in each rating model, other than the segments driven by product programmes, is on a scale of 1 to 8, which are further categorised by assigning +/- modifiers to reflect the relative standing of the borrower within the specific risk grade. Model-specific rating grades are named distinctly. Each model-specific rating grade reflects the relative ratings of the borrowers under that particular segment. For instance, L4 indicates a superior risk profile of a Large Corporate, when compared to another Large Corporate rated L5.

In order to have a common risk yardstick across the Bank, these model specific ratings are mapped to common scale ratings which facilitate measurement of risk profile of different segments of borrower by means of common risk ladder.

Various purposes for which the rating/scoring models are used are mentioned hereunder:

- ☞ Portfolio Management
- ☞ Efficiency in lending decision
- ☞ To assess the quality of the borrower – single point reference of credit risk of the borrower
- ☞ Preferred rating norms for assuming exposures
- ☞ Prudential ceiling for single borrower exposures – linked to rating

- ☞ Frequency of review of exposures
- ☞ Frequency of internal auditing of exposures
- ☞ To measure the portfolio quality
- ☞ Target for quality of advances portfolio is monitored by way of Weighted Average Credit Rating (WACR).
- ☞ Pricing credit
- ☞ Capital allocation (under IRB approaches)

### **Credit Quality Assurance:**

Bank has also adopted Loan Review Mechanism (LRM), which involves independent assessment of quality of an advance, effectiveness of loan administration, compliance with internal policies of Bank and regulatory framework and portfolio quality. It also helps in tracking weaknesses developing in the account for initiating corrective measures in time. LRM is carried out by Credit Quality Assurance team, which is independent of Credit and Business functions.

### **Review and Monitoring**

All the credit exposures are monitored on an ongoing basis to identify any signs of incipient weakness in the borrower so as to take timely remedial action. For this purpose, the Bank has implemented automated Early Warning Signals (EWS) which provides timely alerts which facilitates in deciding account level strategies

Retail Credits are managed at the Portfolio level by carrying out analysis across various dimensions and portfolio cuts. The outcome from such analysis facilitates in identifying hot spots, focusing in remedial actions and undertaking enhancements in the retail product programmes.

### **Credit Risk Management at Portfolio level:**

Accumulation of individual exposures leads to portfolio, which creates the possibility of concentration risk. Concentration risk, on account of borrowers/ products with similar risk profile, may arise in various forms such as Single Borrower, Group of Borrowers, Sensitive Sector, Industry-wise exposure, Unsecured exposure, Rating wise exposure, Off Balance sheet exposure, Geography wise or Product wise exposure, etc. Credit risk concentration is addressed by means of structural and prudential limits stipulated in the Credit Risk Policy and other related policies.

Concentration risk on account of exposures to counter-parties (both single borrower and group of borrowers), Industry-wise, Rating-wise, Product-wise, etc., is being monitored by Risk Management Dept (RMD). For the purpose, exposures in all business units, viz. branches, treasury, investment banking, etc., by way of all instruments (loans, equity/debt investments, derivative exposures, etc.) are considered. Such monitoring is carried out at monthly intervals. Besides this, respective business units are monitoring the exposure on continuous real-time basis.

The Board approved Credit Risk Policy of the Bank specifies various limits to mitigate the Concentration risk like ceilings on exposure to Group of connected counterparties, Unsecured exposure ceilings, ceiling on long tenor exposure and aggregate value of large value exposures along with exposure ceilings to certain segments like Capital Market, Real Estate, Microfinance, etc. The actual values of the exposures are monitored and reported to Risk Management Committee and Board of Directors on a regular basis.

Concentration risk is further evaluated in terms of statistical measures and benchmarks. Detail analysis of portfolio risk and control measures is carried out on a monthly basis on various parameters. Further, a comprehensive Stress Testing framework based on several factors and risk drivers assessing the impact of stressed scenario on Credit quality, its impact on Bank's profitability and capital adequacy is placed to Top Management /Board every quarter. The framework highlights the Bank's credit portfolio under 3 different levels of intensity across default, i.e. mild, medium and severe, and analyses its impact on the portfolio quality and solvency level.

## **Impaired credit - Non Performing Assets (NPAs):**

Bank has an independent Credit Administration Department that constantly monitors accounts for irregularities, identifies accounts for early warning signals for potential problems and identifies individual NPA accounts systematically.

Bank has also set up Financial Restructuring and Reconstruction (FRR) Dept for managing and monitoring defaulted accounts, carrying out restructuring, wherever feasible and following up for recoveries of dues.

Bank follows applicable RBI guidelines while classifying Non-performing Assets (NPAs). The guidelines are as under:

- a) An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.
- b) A Non-Performing Asset (NPA) is a loan or an advance where;
  - i. interest and / or installment of principal remains 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. installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
  - v. installment of principal or interest thereon remains overdue for one crop season for long duration crops,
  - vi. amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of RBI guidelines on Securitisation dated February 1, 2006.
  - vii. 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.

Out of Order status: An account should be 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 should be treated as 'out of order'.

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.

## **Credit Risk Exposures**

### **(a) Total Gross Credit Risk Exposures as on 30<sup>th</sup> June 2021**

<b>Particulars</b>	<b>Rs in mio</b>
Fund Based*	35,53,135
Non-Fund Based**	10,94,107
<b>Total Exposures#</b>	<b>46,47,242</b>

\* Includes all exposures such as Cash Credit, Overdrafts, Term Loan, Cash, SLR securities etc., which are held in banking book.

\*\* Off-Balance items such as Letter of Credit, Bank Guarantee and credit exposure equivalent Inter-bank forwards, merchant forward contracts and derivatives which are net of Bilateral netting, etc.

# including exposure at IFSC Banking Unit (GIFT City)

**(b) Geographic Distribution of Exposures as on 30<sup>th</sup> June 2021**

Particulars	Domestic (Rs in mio)	Overseas (Rs in mio)
Fund Based	35,53,135	-
Non-Fund Based	10,94,107	-
<b>Total Exposures</b>	<b>46,47,242</b>	<b>-</b>

**(c) Industry-Wise Distribution of Exposures as on 30th June 2021**

Industry Name	Fund Based (Rs in mio)	Non-Fund Based (Rs in mio)
<b>NBFCs</b>		
NBFCs (other than HFCs)	79,649	14,499
<b>Micro Finance Institutions</b>	5,340	276
<b>Construction</b>		
Constn related to infra.- EPC	8,370	44,072
Roads/other infra project	17,520	14,214
Contract Construction - Civil	12,080	25,792
<b>Real Estate</b>		
Real Estate – Residential and Commercial	67,190	14,506
Lease Rental Discounting - Real Estate	68,620	-
Housing Finance Companies	22,220	481
Real Estate – Others (Affordable Housing, SEZ, Infra, etc.)	28,270	2,301
<b>Power</b>		
<b>Power Generation:</b>		
- Renewable	29,210	70,250
- Non-Renewable	34,570	7,696
Power Transmission	9,970	7,827
Power Distribution	1,070	2,402
Power Trading	-	5,580
<b>Cables</b>		
Telecom Cables	250	3,500
Power Cables	1,540	2,019
<b>Steel</b>		
Steel-Long Products	6,210	455
Steel Flats-CR,GP/GC	24,980	9,234
Steel Flats- HR	340	5,918
Steel – Alloy	11,850	1,154
Steel Pipes	4,590	5,007
Sponge Iron	160	63
Casting & Forgings	5,400	1,027
Stainless Steel	8,650	834
Pig Iron	1,120	7
<b>Textiles</b>		
Textiles - Readymade Garments	4,840	825
Textiles - Cotton fabrics	3,510	1,477
Textiles -Cotton fibre / yarn	3,780	975

<b>Industry Name</b>	<b>Fund Based (Rs in mio)</b>	<b>Non-Fund Based (Rs in mio)</b>
Textiles - Manmade fibres / yarn	2,620	177
Textiles-Texturising	260	4
Textile-Blended Yarn	590	40
Textile – Jute	170	2
Textiles - Synthetic Fabrics	1,500	626
Textile – Silk	170	17
Textile – Machinery	130	5
Cotton ginning, Cleaning, Baling	870	17
<b>Telecom</b>		
Telecom – Cellular	17,900	48,254
Telecom Equipments	500	477
<b>Pharmaceuticals</b>		
Pharmaceuticals - Bulk Drugs	7,080	3,646
Pharmaceuticals – Formulations	9,410	2,495
<b>Chemicals</b>		
Chemicals – Organic	5,720	7,112
Chemicals – Inorganic	12,580	2,807
<b>Fertilisers</b>		
Fertilisers – Phosphatic	90	11
Fertilizers – Nitrogenous	630	23,343
<b>Paper</b>		
Paper - Writing and Printing	5,020	2,506
Paper – Industrial	3,940	2,451
Paper Newsprint	10	-
Petroleum & Products	1,020	44,614
Gas Distribution	430	77,780
Engineering & Machinery	6,380	31,395
Gems and Jewellery	81,150	9,858
Edible Oils	3,270	864
Auto Ancillaries	13,490	6,022
Diversified	7,900	8,746
Hospital & Medical Services	13,430	2,517
Food Credit	13,770	3,340
Aluminium	870	161
Capital Market Brokers	1,470	8,910
Rubber & Rubber Products	740	266
Lease Rental Discounting - Others	3,790	190
Plastic & Plastic Products	8,160	2,429
Food Product & Beverages and other food processing	21,330	3,313
Sugar	1,610	395
SME - Miscellaneous-Mfg.	7,460	2,523
Electronic components	1,290	875
Commodity Market Brokers	30	10
Beverage, Breweries, Distilleries	3,530	288
Hotels & Tourism	18,660	1,653

Industry Name	Fund Based (Rs in mio)	Non-Fund Based (Rs in mio)
Glass & Glass Products	490	500
Shipping	12,140	5,749
Educational Institutions	30,450	2,923
Computers - Hardware	200	593
Coal	-	170
IT Enabled Services	7,130	1,556
Electrical fittings	550	407
Petrochemicals	20	18,589
Banks	86,290	1,22,602
Animal Husbandry	1,060	97
Mining, Quarrying & Minerals	10,960	15,604
Construction Equipment	730	863
Airlines	4,210	-
Wood and Wood Product	950	65
Leather & leather Products	2,010	955
Tiles / Sanitaryware	3,860	1,032
Transport Services	2,790	1,835
Oil and Gas Exploration	20	24,620
Electric Equipment	2,180	7,163
Media, Entertainment & Advt.	13,390	1,892
Organised Retailing	5,280	261
Trading – Wholesale	35,030	7,579
Trading – Retail	27,810	5,250
Services	19,660	25,825
Credit Cards	45,120	-
Micro Finance	2,63,911	-
Other Retail Assets	83,305	-
Consumer Finance	6,84,056	-
Other Industries	1,21,665	3,05,452
Residual Assets	13,47,599	-
<b>Total Exposure</b>	<b>35,53,135</b>	<b>10,94,107</b>

**Exposures to industries (other than consumer finance division) in excess of 5% of total exposure**

Industry	Fund Based(Rs in mio)	Non-Fund Based (Rs in mio)
-	-	-

**(d) Residual Contractual Maturity breakdown of assets**

**(Rs in mio)**

Assets	1D	2-7D	8-14D	15-30D	31D-2M	>2M-3M	>3M-6M	>6M-1Y	>1Y-3Y	>3Y-5Y	>5Y-7Y	>7Y-10Y	>10Y-15Y	>15Y	Total
Cash	13,158	-	-	-	-	-	-	-	-	-	-	-	-	-	13,158
Balances with RBI	5,302	4,045	4,351	3,962	4,508	5,284	13,992	20,463	17,565	4,746	4,123	6,128	5,646	4,310	1,04,424
Balances with other Banks	2,81,825	2,97,039	-	3,717	3,717	-	0	1	1	-	3	-	-	-	5,86,302
Investments	2,24,374	20,397	17,546	17,883	21,497	21,692	58,555	90,950	76,885	34,274	14,560	41,124	22,769	24,900	6,87,407
Advances	18,196	36,166	29,288	33,506	91,178	1,36,769	1,74,632	3,01,280	7,88,557	2,62,748	83,513	75,028	67,695	8,719	21,07,274
Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	18,092	18,092
Other Assets	47,719	-	3,337	12,372	3,590	16,475	59,761	7,315	31,862	14,564	14,052	4,141	-	-	2,15,188

**(e) Movement of NPAs and Provision for NPAs as on 30<sup>th</sup> June 2021****(Rs in mio)**

<b>A Amount of NPAs (Gross)</b>	
Sub-standard	36,806
Doubtful 1	18,166
Doubtful 2	3,017
Doubtful 3	2,190
Loss	1,679
<b>B Net NPAs</b>	<b>17,596</b>
<b>C NPA ratios</b>	
Gross NPA to Gross advances (%)	2.87%
Net NPA to Net advances (%)	0.83%
<b>D Movement of NPAs (Gross)</b>	
Opening Balance as on 01.04.21	57,950
Additions during the period	27,623
Reductions during the period	23,715
<b>Closing Balance as on 30.06.2021</b>	<b>61,858</b>
<b>E Movement of provision for NPAs</b>	
Opening as on 01.04.21	43,184
Provision made till 30.06.2021	14,678
Write off	9,379
Write back of excess provisions	4,221
Any other adjustments, including transfers between provisions	
<b>Closing as on 30.06.2021</b>	<b>44,262</b>

<b>Particulars</b>	<b>Amount (Rs in mio)</b>
Write offs booked directly to income statement	Refer to E above
Recoveries booked directly to income statement	121

**(f) Non Performing Investments and Movement of provision for depreciation on Non Performing Investments****(Rs in mio)**

<b>A</b>	<b>Amount of Non-Performing Investments</b>	<b>1297</b>
<b>B</b>	<b>Amount of provisions held for non-performing investments</b>	<b>1141</b>
<b>C</b>	<b>Movement of provisions for depreciation on investments</b>	
	Opening as on 01.04.21	<b>7682</b>
	Add: Provisions made till 30.06.2021	391
	Less: Write-off/ write-back of excess provisions	0
	<b>Closing Balance as on 30.06.2021</b>	<b>8073</b>

**(g) Major Industry Break up of NPA and Provision****(Rs in mio)**

<b>Industry</b>	<b>Gross NPA</b>	<b>Specific Provision</b>
NPA in Top 5 Industry	785	594



#### (h) Geography wise Distribution of NPA and Provision

(Rs in mio)

Geography	Gross NPA	Provision
Domestic	61,858	44,262
Overseas	-	-
<b>Total</b>	<b>61,858</b>	<b>44,262</b>

#### DF-4: Credit risk: Disclosures for Portfolios Subject to the Standardised Approach

As per the Basel II guidelines on Standardised approach, the risk weight on certain categories of domestic counter parties is determined based on the external rating assigned by any one of the accredited rating agencies, i.e. CRISIL Ratings Ltd, ICRA, CARE, India Ratings, Brickworks Ratings, Infomeric and Acuite. For Foreign counterparties and banks, rating assigned by S&P, Moody's and Fitch are used.

Bank computes risk weight on the basis of external rating assigned, both Long Term and Short Term, for the facilities availed by the borrower. The external ratings assigned are generally facility specific. Bank follow below mentioned procedures as laid down in Basel II guidelines for usage of external ratings:

- Ratings assigned by one rating agency are used for all the types of claims on the borrowing entity.
- Long term ratings are used for facilities with contractual maturity of one year & above. Short term ratings are generally applied for facilities with contractual maturity of less than one year.
- If either the short term or long term ratings attracts 150% risk weight on any of the claims on the borrower, Bank assigns uniform risk weight of 150% on all the unrated claims, both short term and long term unless the exposure is subjected to credit risk mitigation.
- In case of multiple ratings, if there are two ratings assigned to the facility that maps to different risk weights, the rating that maps to higher risk weight is used. In case of three or more ratings, the ratings corresponding to the two lowest risk weights is referred to and the higher of those two risk weights is be applied. i.e., the second lowest risk weight.
- For securitized and guaranteed transactions, SO ratings assigned by the rating agency are applied for arriving at the risk weights.

#### Risk Weight-wise distribution of Gross Credit Exposures

Category	Rs in mio
Below 100% Risk Weights	33,71,026
100% Risk Weights	8,24,383
More than 100% Risk Weights	4,51,834
Deducted	-

#### DF-18: Leverage ratio

Leverage ratio is a non-risk based measure of exposure over 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.

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

### **Leverage Ratio Trend**

Rs in mio

<b>Particulars</b>		<b>June-20</b>	<b>Sept-20</b>	<b>Dec-20</b>	<b>Mar-21</b>	<b>Jun-21</b>
(i)	Tier 1 capital	379,254	414,320	414,517	4,59,230	<b>459,621</b>
(ii)	Exposure measure	40,55,866	41,99,135	42,89,932	45,29,275	<b>46,55,259</b>
(iii)	<b>Leverage ratio %</b>	<b>9.35%</b>	<b>9.87%</b>	<b>9.66%</b>	<b>10.14%</b>	<b>9.87%</b>

The Leverage Ratio has increased from 9.35% (June 2020) to 9.87% (June 2021) in line with the increase in Tier 1 capital funds from Rs 379,254 mio (June 2020) to Rs 459,621 mio (June 2021).