

## **BASEL II – PILLAR 3 DISCLOSURES**

**Table DF- 1**

### **Scope of application**

#### **Qualitative Disclosures**

- a) The name of the top bank in the group to which the Framework applies.

**THE LAKSHMI VILAS BANK LTD**

- b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (i) that are fully consolidated; (ii) that are pro-rata consolidated; (iii) that are given a deduction treatment; and (iv) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).

**No group affiliation**

#### **Quantitative Disclosures**

- c) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries.

**Not applicable**

- d) The aggregate amounts (e.g. current book value) of the bank's total interests in insurance entities, which are risk-weighted as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction.

**Not applicable**

**Table DF- 2**

**Capital Structure**

<b>Qualitative Disclosures</b>	
(a)	
<ul style="list-style-type: none"> <li>• Tier 1 capital includes Equity share capital, Reserves comprising of statutory reserves, capital and other revenue reserves, share premium and Balance in profit and loss account and excludes Deferred Tax Asset (DTA).</li> <li>• Tier 2 Capital consists of the general provisions, Tier II bonds – subordinated Debt (Discounted value) as on 31.03.2010.</li> </ul>	
<b>Quantitative Disclosures</b>	
b) The amount of Tier I capital as on 31.03.2010 :	
	Rs.in.cr
Paid-up share capital	97.51
Innovative instruments	0.00
Amounts deducted from Tier I capital (DTA), fixed assets, including goodwill and investments.	-14.81
Reserves	634.99
<b>Total Tier I Capital</b>	<b>717.69</b>
c) The total amount of Tier II capital (net of deductions from Tier II capital)	
	Rs.in.cr
General Provisions (including floating provisions)	35.74
Tier II Bonds (Eligible for Tier II capital at different rates and different maturities)	132.00
<b>Total Tier II Capital</b>	<b>167.74</b>
d) Debt capital instruments eligible for inclusion in Upper Tier II capital	
• Total amount outstanding	<b>- NIL</b>
• Of which amount raised during the current year	<b>- NIL</b>
• Amount eligible to be reckoned as capital funds	<b>- NIL</b>
e) Subordinated debt eligible for inclusion in Lower Tier II capital	
• Total amount outstanding	- Rs.170.00 Crs
• Of which amount raised during the current year	- Rs.100.00 Crs
• Amount eligible to be reckoned as capital funds	- Rs.132.00 Crs
f) Other deductions from capital, if any (DTA and fixed assets software) - Rs.-14.81 Crs	
g) Total eligible capital (Tier I & Tier II) :	
	<b>Rs.885.43 Crs</b>

**Table DF- 3****Capital Adequacy**

<b>Qualitative Disclosures</b>	
<ul style="list-style-type: none"> <li>• Bank maintained Capital to Risk Weighted Assets Ratio (CRAR) at 14.82%</li> <li>• Tier 1 CRAR of 12.01% is above the minimum requirement of 6% as per RBI guidelines.</li> <li>• Bank's CRAR as per Basel II (14.82%) is higher than Basel I (14.21%).</li> <li>• Total CRAR above the minimum requirement of 9 % including Pillar 2 requirements</li> <li>• Bank maintained capital in terms of Revised Framework above the prudential floor viz. higher of <ul style="list-style-type: none"> <li>➤ Minimum capital required as per the Revised Framework ;</li> <li>➤ 90 % of the minimum capital required to be maintained as per the Basel I framework</li> </ul> </li> <li>• Tier II capital is within the stipulation of 50% of Tier I capital</li> </ul>	
<b>Quantitative Disclosures</b>	
a) Capital requirements for credit risk:	
• Portfolio subject to standardized approach	<b>Rs.466.47 Cr</b>
• Securitisation exposures	<b>NIL</b>
b) Capital requirements for market risk:	
• Standardised duration approach:	
- Interest rate risk	<b>Rs.26.63 Cr</b>
- Foreign exchange risk (including gold)	<b>Rs.1.11 Cr</b>
- Equity risk	<b>Rs.13.06 Cr</b>
c) Capital requirements for operational risk:	
• Basic indicator approach	<b>Rs.30.41 Cr</b>
d) Total and Tier 1 Capital ratio:	<b>Not applicable</b>
• For the top consolidated group; and	
• For significant bank subsidiaries (stand alone or sub-consolidated depending on how the framework is applied).	

**Table DF- 4**

**Credit Risk – General Disclosures**

**Qualitative Disclosures**

- The Bank had put in place Credit Risk Management Policy and Lending Policy where all the credit aspects have been included. The policies stipulate borrower/credit standards, standards for loan collateral/guarantor acceptance, portfolio management, risk based pricing of loans & advances, loan review mechanism, credit audit, risk concentrations, risk monitoring and evaluation, provisioning and regulatory / legal compliance.
- Bank has adopted the Income Recognition and Asset Classification norms of the regulator.
- The Bank identifies the risks to which it is exposed and applies rating models to measure, monitor and control these risks. Bank considers rating of a borrowal account as an important tool to measure the credit risk associated with any borrower and accordingly a two dimensional credit rating system was adopted.
- While the Board / Integrated Risk Management Committee of the Board devises the policy, fixes various credit risk exposures and approves strategies, the Integrated Risk Management Committee of Executives implements them through the Integrated Risk Management Department
- The Bank studies the concentration risk by (a) fixing exposure limits for single and group borrowers (b) rating grade limits and (c) industry wise exposure limits
- Credit risks and compliance to risk limits were monitored on bank wide basis.
- Bank has Board approved policy framework on Stress Testing to measure vulnerability of profit and capital under stress conditions.

**Quantitative Disclosures**

- a) Total gross credit risk exposures, Fund based and Non-fund based separately.

<b>Credit Risk Exposures</b>	<b>Rs.in.cr</b>
Fund Based *	9537.39
Non Based	1167.91
<b>Total Fund &amp; Non Based</b>	<b>10705.30</b>

\* It includes loans/advances, fixed assets, other assets, cash, balance balances, balance with RBI and investments

- b) Geographic distribution of exposures, Fund based and Non-fund based separately.

- Overseas - **NIL**
- Domestic

Rs.in.cr

	<b>FUND BASED</b>	<b>NON FUND BASED</b>
<b>TOTAL ADVANCES</b>	<b>9537.39</b>	<b>1167.91</b>

- c) Industry type distribution of Fund based exposures

Rs. in Cr

<b>Industry</b>	<b>Amount</b>	<b>% to gross credit</b>
Spinning Mills	1.03	0.02
Iron & Steel (Manufacturing & Trading)	242.58	3.82
Other Metal & Metal products	94.72	1.49
All Engineering	85.98	1.35
Electricity	42.01	0.66
Jute Textiles	4.50	0.07
Other Textiles	168.27	2.65
Sugar	23.96	0.38
Food Processing	82.92	1.31
Vegetable Oil & Vanaspati	31.54	0.50
Paper & Paper Products	58.94	0.93
Rubber & Rubber Products	4.80	0.08
Cement	57.27	0.90
Leather and Leather Products	20.68	0.33
Gems and Jewellery	85.57	1.35
Construction	71.38	1.12
Petroleum	3.91	0.06
Automobiles	27.86	0.44
Computer Software	0.93	0.01

Industries having exposure more than 5% of gross credit of the bank

Rs in Cr

<b>Industry</b>	<b>Amount</b>	<b>% to gross credit</b>
Cotton Textiles	421.86	6.64
Chemical, Dyes, Paints, etc.	452.70	7.13
Infrastructure	383.09	6.03
Other Industries	525.02	8.27

d) Residual contractual maturity breakdown of assets

Rs.in.cr

	Cash	Balance With RBI	Balance With Other Banks	Investments	Call Money Placements	Advances	Fixed Assets	Other Assets
<b>Overdue to Day</b>								
<b>1</b>	83.75	163.34	29.10	54.79	0.00	30.37	0.00	13.55
<b>2-7 Days</b>	0.00	47.98	0.00	64.92	50.00	38.65	0.00	1.34
<b>8-14 Days</b>	0.00	7.46	0.00	59.89	0.00	117.71	0.00	1.56
<b>15-28 Days</b>	0.00	12.24	0.00	19.44	0.00	146.87	0.00	3.11
<b>29 Days to 3 Months</b>	0.00	53.23	0.15	31.20	0.00	530.17	0.00	13.80
<b>3-6 Months</b>	0.00	47.23	0.00	0.15	0.00	748.14	0.00	40.03
<b>6 Months-1 Year</b>	0.00	86.26	0.00	24.87	0.00	672.56	0.00	126.45
<b>1-3 Years</b>	0.00	178.20	1.69	140.54	0.00	2682.42	0.00	340.77
<b>3-5 Years</b>	0.00	18.96	0.00	236.03	0.00	487.08	0.00	0.00
<b>Over 5 Years</b>	0.00	94.18	0.00	2328.14	0.00	823.53	65.67	3.95
<b>Total</b>	83.75	709.08	30.95	2959.98	50.00	6277.50	65.67	544.56

e) Amount of NPAs (Gross)

	Rs.in.cr
Substandard	167.93
Doubtful 1	98.99
Doubtful 2	50.42
Doubtful 3	2.96
Loss	4.88
<b>Total</b>	<b>325.18</b>

f) Net NPAs

**Rs.257.79 cr**

g) NPA Ratios

- Gross NPAs to gross advances **5.12%**
- Net NPAs to net advances **4.11%**

h) Movement of NPAs (Gross)

	Rs.in.cr
Opening balance	144.05
Additions	389.30
Reductions	208.17
Closing balance	325.18

i) Movement of provisions for NPAs

	Rs.in.cr
Opening balance	73.95
Provisions made during the period	119.26
Write-off	132.49
Write-back of excess provisions	0.00
Closing balance	60.72

j) Amount of Non-performing investments

- Rs.7.82 Crs

k) Amount of provisions held for non-performing investments

- Rs.6.82 Crs

l) Movement of provisions for depreciation on investments

Rs.in.cr

Opening balance	26.66
Provisions made during the period	4.61
Write-off	4.68
Write-back of excess provisions	Nil
Closing balance	26.59

Table DF- 5

## Credit Risk: Disclosures for portfolios subject to the standardized approach

## Qualitative Disclosures

a) For portfolios under the standardized approach:

1.The Board has approved four Rating Agencies identified by Reserve Bank of India namely (i) CRISIL (ii) ICRA (iii) CARE (iv) FITCH to facilitate the borrower customers to solicit the ratings for all types of exposures i.e fund based, non-fund based, short and long term.

2. No agency has been added/deleted by the bank during the year.

## Quantitative Disclosures

a) For exposure amounts after risk mitigation subject to the standardized approach, amount of a bank's outstanding (rated and unrated) in the following three major risk buckets as well as those that are deducted:

Particulars	Below 100% Risk Weight		100% Risk Weight		More than 100% Risk Weight		Grand Total	
	BV**	RWA**	BV	RWA	BV	RWA	BV	RWA
<b>Fund Based</b>								
Loans & Advances	2173.40	1243.67	2196.84	2196.84	669.29	941.43	5039.53	4381.94
Investments	1961.24	0.00	0.20	0.20	Nil	Nil	1961.44	0.20
Other Assets*	1115.03	23.05	110.52	110.52	Nil	Nil	1225.55	133.57
Loans & Advances Deducted	1310.87	0.00	Nil	Nil	Nil	Nil	1310.87	0.00
<b>Total Fund Based</b>	<b>6560.54</b>	<b>1266.72</b>	<b>2307.56</b>	<b>2307.56</b>	<b>669.29</b>	<b>941.43</b>	<b>9537.39</b>	<b>4515.71</b>
Non Fund Based inc. Contingent credit	182.35	82.08	802.01	500.48	183.55	84.72	1167.91	667.28
<b>Total Credit Risk Exposures</b>	<b>6742.89</b>	<b>1348.80</b>	<b>3109.57</b>	<b>2808.04</b>	<b>852.84</b>	<b>1026.15</b>	<b>10705.30</b>	<b>5182.99</b>

\* other assets includes cash, balance with rbi, balance with other banks, fixed assets and others

\*\* BV: Book Value; RWA: Risk Weighted Assets

Table DF- 6

**Credit Risk Mitigation: Disclosures for Standardized Approach****Qualitative Disclosures**

(a)

The Bank has put in place Credit Risk Mitigation & Collateral Management Policy with the primary objective of (i) Mitigation of credit risks and enhancing awareness on identification of appropriate collateral taking into account the spirit of Basel II / RBI guidelines and (ii) Optimizing the benefit of credit risk mitigation in computation of capital charge as per approaches laid down in Basel II / RBI guidelines.

The Bank generally relies on Risk Mitigation techniques like Loan Participation, Ceiling on exposures, Escrow mechanism, forward cover, higher margins, loan covenants, collateral and insurance cover.

Valuation methodologies are detailed in the Credit Risk Management Policy.

Bank accepts guarantees from individuals with considerable networth and the corporates. Only guarantees issued by entities with a lower risk weight than the counterparty shall be accepted to get the protection for the counter party exposure.

Concentration risk in credit risk mitigation - All types of securities eligible for mitigation are easily realizable financial securities. As such, presently no limit / ceiling have been prescribed to address the concentration risk in credit risk mitigants recognized by the Bank.

**Quantitative Disclosures**

- b) For each separately disclosed credit risk portfolio the total exposure (after, where applicable, on- or off balance sheet netting) that is covered by eligible financial collateral after the application of haircuts.

Collateral Type	Exposure	Financial Collateral Amount	Rs.in.cr
			Net Exposure
Deposits	5781.90	588.96	5192.94
Gold	830.20	721.91	108.29
Securities	0.00	0.00	0.00
KVP / NSC	0.00	0.00	0.00
Life Insurance Policies	2.96	0.00	2.96
Debt Securities	0.00	0.00	0.00
Mutual Funds	0.00	0.00	0.00

- c) For each separately disclosed portfolio the total exposure (after where applicable, on- or off balance sheet netting) that is covered by guarantees/credit derivatives (Whenever specifically permitted by RBI).

- NIL



**Table DF- 7**  
**Securitisation Exposures: Disclosures for Standardized Approach**

<b>Qualitative Disclosures</b>
The Bank has not undertaken any securitization activity.
<b>Quantitative Disclosures</b>
NIL

**Table DF- 8**  
**Market risk in Trading Book**

<b>Qualitative Disclosures</b>
a) Market Risk in trading book is assessed as per the Standardized duration method. The capital charge for HFT and AFS is computed as per Reserve Bank of India prudential guidelines.
<b>Quantitative Disclosures</b>
b) The capital requirements for: <ul style="list-style-type: none"> <li>• Interest rate risk                      Rs.26.63 Cr</li> <li>• Equity position risk; and              Rs.13.06 Cr</li> <li>• Foreign exchange risk;                Rs.1.11 Cr</li> </ul>

**Table DF- 9**  
**Operational Risk**

<b>Qualitative Disclosures</b>
<p>The Bank has put in place important policies like Operational Risk Management, Information System Security, Know your Customer (KYC) and Anti Money Laundering (AML), Business Continuity and Disaster Recovery Management. The updated manuals on all important functional areas have been circulated to the branches. Risk Based Internal Audit is introduced in 200 branches in our Bank.</p> <p>The Operational Risk Management Policy outlines the Organisation structure and covers the process of identification, assessment / measurement and control of various operational risks. Internal control mechanism is in place to control and minimize the operational risks.</p> <p>Capital charge for operational risk is computed as per the Basic Indicator Approach. The average of the gross income, as defined in the New Capital Adequacy Framework guidelines, for the previous 3 years i.e 2008-09, 2007-08, 2006-07 is considered for computing the capital charge. The required capital is <b>Rs. 30.41 Cr.</b></p>

Table DF- 10

Interest Rate Risk in the Banking Book (IRRBB)

**Qualitative Disclosures**

- a) Embedded Option Risk (Foreclosure of deposits) is studied and factored in the interest rate sensitivity analysis. Based on the interest rate sensitivity, interest rate risk in the Banking Book is studied on a Monthly basis. Earnings at Risk (EAR) are computed based on the Traditional Gap Analysis on a static position. Market Value of Equity (MVE) is computed adopting the Duration Gap Analysis.

**Quantitative Disclosures**

- b) The increase (decline) in earnings and economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method of measuring IRRBB, broken down by currency (where the turnover is more than 5% of the total turnover).
  - (i) **Earnings at Risk** – For a parallel shift of 200 bps, fall of NII is at 1.90% of Net worth.
  - (ii) **Market Value of Equity (MVE)**- A '200 bps shock' is adopted as the standardized interest rate shock for arriving the MVE under the standardized stress scenario. The market values of above portfolios are calculated with respect to the 'shifted yield curves'. The MVE under the standardized shock is calculated as the difference between 'MV of assets under stress' and 'MV of liabilities under stress'.

Accordingly Change in MVE is estimated to fall by Rs. 2.87 cr.