CAPITAL SMALL FINANCE BANK LIMITED

Basel II - Pillar 3 Disclosures

1 Scope of Application

Capital Small Finance Bank Limited (The Bank), previously known as Capital Local Area Bank Limited, is a banking company incorporated under The Companies Act, 1956, with registered office in Jalandhar. The Bank started its operations as a Local Area Bank on January 14, 2000 with 3 districts of Punjab i.e. Jalandhar, Kapurthala and Hoshiarpur. Pursuant to Small Finance Bank License granted by Reserve Bank of India, the Bank has started the operations as a Small Finance Bank on April 24 2016. Bank is presently providing the commercial and retail banking products to its customers.

The name of the bank has been included in the Second Schedule to the Reserve Bank of India Act, 1934 vide RBI notification dated February 16, 2017.

The Bank does not have any subsidiary/holding or any group company.

The Bank does not have any interest in insurance entities.

2 Capital Adequacy Framework and Capital Structure

Framework

As per the “Operating Guidelines for Small Finance Bank” issued by Reserve Bank of India (RBI), the Bank is required to maintain minimum Capital to Risk Weighted Assets (CRAR) of 15% with minimum Tier I capital of 7.50% and leverage ratio of 4.50%. As of now, capital conservation buffer and counter cyclical buffer are not applicable for small finance banks.

The Bank is required to measure capital charge on credit risk as per Basel II Standardized Approach. However, capital charge has not been prescribed for Small Finance Banks in respect of market risk and operational risk.

Assessment

For better assessment of the capital, the Bank is having Internal Capital Assessment Process (ICAAP) with Simplified Approach, in view the balance sheet size and requisite risk management practices.

The Bank's ICAAP focuses to ensure that the Bank has sufficient capital to support all the risks inherent to the business and an adequate capital buffer based on the business profile. The change in the level of credit risk, market risk and interest rate risk along with the changes in on and off balance sheet exposures are assessed under different stress scenarios by the Bank to have better assessment of the capital requirement.

In this regard, a sensitivity analysis on the movement of CRAR and the additional Capital requirement of the Bank within the next 3 years horizon is made, taking into consideration projected Advances growth, Deposits growth provision on employee benefits, estimated Profits and Capital Charge as per the regulatory provisions.

2.1 Capital Funds:

Particulars	₹ in Lacs
Tier I Capital	
- Paid Up Share Capital	2848.07
- Reserves & Surplus (Other than IRA)	20378.52
Deductions	
- Intangible Assets	85.57
- Any Other Deduction	267.13
Total Tier I Capital	**22873.89**
Tier II Capital	
General Provisions	717.18
Debt Capital Instruments eligible for inclusion as Upper Tier II Capital	3900.00
Subordinated term Debt	5896.20
Total Tier II Capital	**10513.38**
Total Capital Funds	**33387.27**

2.2 Capital Requirement for various Risks and Risk Weighted Assets

Particulars	₹ in Lacs
A. Credit Risk	
Portfolio Subject to Standardized approach	**25473.17**
For Securitized Portfolio	**-**
B. Market Risk	**-**
Interest Rate Risk	**-**
Equity Position Risk	**-**
Foreign Exchange Risk	**-**

C. Operational Risk	**-**
Total Capital Requirement	**25473.17**
Total Risk Weighted Assets	**169821.16**
Total Capital Funds	**33387.27**
CRAR (%)	**19.66%**
Tier I (%)	**13.47%**
Tier II (%)	**6.19%**

2.3 Leverage Ratio

The Bank is maintaining leverage ratio of 6.68% as on 31st March, 2018 which is well above the threshold limit of 4.5%. The following table sets forth, the disclosures required for leverage ratio for the Bank as per RBI guidelines as on March 31, 2018.

Leverage Ratio		
	Particulars	(₹ in Lakhs)
On balance sheet exposure		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral	335183.20
2	(Asset amounts deducted in determining Tier 1 capital)	(85.57)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	335097.63
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	-
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	32107.22
18	(Adjustments for conversion to credit equivalent amounts)	(25032.72)
19	Off-balance sheet items (sum of lines 17 and 18)	7074.50

	Capital and total exposures	
20	Tier 1 capital	22873.89
21	Total exposures (sum of lines 3, 11, 16 and 19)	342172.13
	Leverage ratio	
22	Basel III leverage ratio	6.68%

	Summary comparison of accounting assets vs. leverage ratio exposure measure	
	Particulars	(₹ in Lakhs)
1	Total consolidated assets as per published financial statements	335183.20
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	(85.57)
4	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	7074.50
5	Other adjustments	-
6	Leverage ratio exposure	342172.13

3 Credit Risk

3.1 Credit risk is most simply defined as the potential that a bank's borrower or counterparty may fail to meet its obligations in accordance with agreed terms. It is the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or a counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions. Alternatively, losses result from reduction in portfolio arising from actual or perceived deterioration in credit quality.

3.2 Architecture

The bank has set up a well-defined credit risk management framework in order to ensure a proper control over credit portfolio of the bank. The credit risk policy of the bank is being approved by Board of Directors of the bank after considering various risk prepositions and prevailing market conditions. The rights of various functionaries for according sanctions and monitoring of advances portfolio are allocated by Corporate Office via pre-defined mechanism. The review and monitoring of use of delegated authority of functionaries lies with the Credit Risk Management (CRM) Division.

Being a Small Finance Bank, the major focus of the bank is towards retail clients and risk is further mitigated through diversified credit portfolio. The high value exposures are being sanctioned and reviewed at Corporate Office through Credit Sanction Committee. The proposals beyond a pre-defined value are being placed before Board of Directors for approval.

The CRM department of the bank is primarily responsible for implementing directions of the Board of Directors and to ensure mitigation of risk by formulating a proper mechanism for approvals and review of credit portfolio. The proposals beyond a given value are being invariably reviewed and due diligence of clients is ensured through CRM department before disbursement. An independent report is being furnished by CRM Division to respective credit sanction committee. Apart from this the credit proposals are being rated as per credit rating mechanism of the bank. The working of CRM department is exclusively related to risk mitigation and monitoring of credit portfolio. The department is not participating in any business generation activity.

The Risk Management committee reviews various aspects such as portfolio composition, group exposures, Industry wise Classification, position of corporate clients having big exposures, asset quality keeping in view the prudential norms on periodic basis.

The working of the credit division of the bank is governed by the credit policy of the Bank, regulated by the guidelines issued by Reserve Bank of India. The credit policy of the Bank includes guidelines for sanctioning and monitoring of advances along with policies related to schematic lending. The credit monitoring division of the bank is exclusively keeping a close eye on various risk related aspects.

3.3 Process

The Banks endeavors to achieve its goals and to satisfy its customers' needs while maintaining a sound portfolio. To ensure effective and safe lending, a well-defined credit policy has been put in place.

The Bank is engaged in schematic as well as non-schematic lending and the credit policy prescribes the guidelines to be adhered to while lending under various products. The sanctioning authorities can lend only as per the prescribed lending powers. An empowerment matrix is also prescribed to ensure that the competent authority takes an informed decision on any deviations to these norms. Under schematic lending, loans are underwritten on the pre-defined product guidelines.

The non-schematic lending above a minimum threshold limit is subject internal rating of the Bank. The rating framework is very extensive and covers various aspects, like Financial/Operational Risk, Conduct of Account, Security, Industry/Business Outlook, Managerial Risk etc. Based on the aggregate score, ratings range between A+++ (Lowest risk) to C (Default Grade) is assigned. The pricing of loans is linked to the rating achieved by the client. The rating is periodically reviewed along with renewal of the credit facility.

The retail loans are catered at the Branch and Cluster/Regional Office level whereas the wholesale/corporate loans are dealt at Head Office where a dedicated team of professionals appraise the proposals and the risks involved.

Large value exposures are sanctioned by the respective Credit Sanctioning Committees where collective decision making is done after due deliberation and assessment of the various risks.

The entire portfolio is monitored at the Head Office. Overdue accounts are classified according to the RBI's Income Recognition and Asset Classification Norms. Delinquencies are dealt with seriously and utmost efforts are made to regularize the accounts with rigorous follow ups and other recovery mechanisms.

Concentration Risk

The Bank adheres to the various parameters as directed by the Reserve Bank of India. In addition, there are internal limits prescribed by the Board. Credit concentration in the Bank's portfolios is monitored for the following:

- Single/Group party exposure: The Bank has defined exposure limits for individual as well as group borrowers which are continuously tracked and monitored.

- Industry exposure: The Bank has prescribed the exposure ceiling for various industries and exposure to these industries is regularly monitored.

3.4 Credit Risk Exposures

3.4.1 Fund and Non Fund Based Distribution

S. No.	Exposure Type	₹ in Lacs
1	Fund Based*	216134.16
2	Non Fund Based	2727.76
Total		**218861.92**
*Fund Based Exposure also includes exposure in Non – SLR Investments		

3.4.2 Geographical Distribution

Bank is operating in Domestic Segment so there is only one Geographic Segment.

3.4.3 Industry - wise Distribution

Industry Classification	Total Exposure (₹ in Lacs)	% of Total Exposure
All Engineering Industry	528.09	0.24%
Chemicals, Dyes, Paints, etc. Industry	509.05	0.23%
Construction Industry	3425.02	1.56%
Cotton Textiles Industry	40.00	0.02%
Drugs and Pharmaceuticals Industry	59.99	0.03%
Fertilisers Industry	50.06	0.02%
Food Processing Industry	613.91	0.28%
Iron and Steel Industry	323.05	0.15%
Leather and Leather Products Industry	230.03	0.11%
NBFC	8549.60	3.91%
Other Industries/SSI/SME	4586.53	2.10%
Other Metal and Metal Products Industry	898.42	0.41%
Other Textiles Industry	777.02	0.36%
Residual advances	155503.07	71.05%
Rubber and Rubber Products Industry	105.19	0.05%
Trading	42662.89	19.49%
Grand Total	**218861.92**	**100.00%**

3.4.4 Maturity Pattern of Assets

₹ in Lacs

Outflows	Cash & Balance with RBI	Balance with other banks & Money at call & short notice	Investment	Advances	Fixed Assets	Other Assets	Total Inflows
Next Day	3410.88	2752.67	4000.97	31417.21	-	62.06	**41643.79**
2-7 Days	-	2500.00	81.68	439.17	-	43.07	**3063.92**
8-14 days	-	-	117.67	405.07	-	159.15	**681.89**
15 to 30 days	911.98	2943.99	1845.57	1112.38	-	169.74	**6983.66**
31 days and upto	110.31	1095.42	537.74	2070.27	-	534.27	**4348.01**

2 months							
over 2 months and upto 3 months	200.37	-	976.83	4110.52	-	643.20	**5930.92**
over 3 months and upto 6 months	393.63	1970.00	11470.23	7619.11	-	694.40	**22147.37**
Over 6 months and upto 1 years	817.49	10451.91	4113.50	12867.19	-	414.32	**28664.41**
Over 1 year and upto 3 years	4428.35	15768.62	26010.33	109604.35	-	616.40	**156428.05**
Over 3 year and upto 5 years	130.63	-	13415.01	11031.92	-	-	**24577.56**
Over 5 Years	5026.40	-	24503.68	4051.92	6457.23	674.39	**40713.62**
Total	**15430.04**	**37482.61**	**87073.21**	**184729.11**	**6457.23**	**4011.00**	**335183.20**

3.4.5 Asset Quality

3.4.5.1 NPA Ratios

S. No.	Particulars	Percentage
1	Gross NPAs to Gross Advances	1.14%
2	Net NPAs to Net Advances	0.84%

3.4.5.2 Amount of Net NPA

Particulars	₹ in Lacs
Gross NPAs	2113
Less: Provisions	570
Net NPAs	1543

3.4.5.3 Classification of Gross NPA

Particulars	₹ in Lacs
Sub – Standard	996.03
Doubtful	
Doubtful 1	662.02
Doubtful 2	375.57
Doubtful 3	79.24
Loss	-
Total Gross NPAs	**2112.86**

3.4.5.4 Movement of NPA

Particulars	Gross NPA (₹ in Lacs)	Net NPA (₹ in Lacs)
Opening Balance at April 01, 2017	**1399**	**979**
Addition during the period	1915	1538
Reduction/Write off during the period	1201	974
Closing Balance at March 31, 2018	**2113**	**1543**

3.4.5.5 Movement of Provision for NPA

Particulars	₹ in Lacs
Opening Balance at April 01, 2017	**420**
Provision created during the period	377
Write off/back of excess provisions during the period	227
Closing Balance at March 31, 2018	**570**

3.4.5.6 Non Performing Investments

Particulars	₹ in Lacs
Gross non-performing investments	NIL
Less: Provisions	NIL
Net Non Performing Investments	NIL

3.4.5.7 Provision for Non Performing Investments

Particulars	₹ in Lacs
Opening Balance at April 01, 2017	-
Provision created during the period	-
Write off/back of excess provisions during the period	-
Closing Balance at March 31, 2018	**-**

3.4.5.8 Provision for Depreciation on Investment

Particulars	₹ in Lacs
Opening Balance at April 01, 2017	-
Provision created during the period	0.08
Write off/back of excess provisions during the period	-
Closing Balance at March 31, 2018	**0.08**

4 Credit Risk: Portfolio subject to Standardized Approach

4.1 Standardized Approach

The Bank has used Standardized Approach for calculation of Credit Risk as prescribed under the RBI's Basel II capital regulations.

4.1.1 Risk Weight wise Exposure Distribution

Particulars	₹ in Lacs
Below 100% Risk Weight	181021.49
100% Risk Weight	32996.43
More than 100% Risk Weight	4844.00
Total	**218861.92**

4.1.2 Credit Rating Agencies

The portfolio of the Bank is retail oriented, distributed as per Basel Guidelines with a mix of 88.44% retail and 11.56% wholesale portfolio as on March 31, 2018. Out of the wholesale portfolio, 20.21% has external ratings assessed by the below mentioned rating agencies:

1. CARE Ratings Limited
2. Brickwork India
3. SMERA Ratings Limited
4. ICRA Limited

The Bank has not made any discrimination among ratings assigned by these agencies nor has restricted their usage to any particular type of exposure.

4.1.3 Portfolio covered by Financial Collateral

4.1.3.1 Eligible Financial Collateral

For the purpose of computation of capital requirement for Credit Risk, the Bank recognises only those collaterals that are considered as eligible financial collaterals as per Basel II guidelines on standardized approach issued by Reserve Bank of India, listed as under:

- Cash (as well as certificates of deposit or comparable instruments, including fixed deposit receipts, issued by the lending bank) on deposit with the bank which is incurring the counterparty exposure.

- Gold: Gold would include both bullion and jewellery. However, the value of the collateralized jewellery is arrived at after notionally converting these to 99.99 purity.

- Securities issued by Central and State Governments

- Kisan Vikas Patra and National Savings Certificates provided no lock-in period is operational and can be encashed within the holding period.

- Life insurance policies with a declared surrender value of an insurance company which is regulated by an insurance sector regulator.

- Debt securities rated by a chosen Credit Rating Agency in respect of which banks should be sufficiently confident about the market liquidity where these are either:
    - Attracting 100 per cent or lesser risk weight i.e., rated at least BBB(-) when issued by public sector entities and other entities (including banks and Primary Dealers); or
    - Attracting 100 per cent or lesser risk weight i.e., rated at least CARE A3/ CRISIL A3/INDA3/ICRA A3/Brickwork A3/SMERA A3for short-term debt instruments

- Debt Securities not rated by a chosen Credit Rating Agency in respect of which banks should be sufficiently confident about the market liquidity where these are:
    - issued by a bank; and
    - listed on a recognised exchange; and
    - classified as senior debt; and
    - all rated issues of the same seniority by the issuing bank are rated at least BBB(-) or CARE A3/ CRISIL A3/INDA3/ICRA A3/Brickwork A3/SMERA A3by a chosen Credit Rating Agency; and

  - the bank holding the securities as collateral has no information to suggest that the issue justifies a rating below BBB(-) or CARE A3/ CRISIL A3/INDA3/ICRA A3/Brickwork A3/SMERA A3 (as applicable) and;
  - Banks should be sufficiently confident about the market liquidity of the security.

- Units of Mutual Funds regulated by the securities regulator of the jurisdiction of the bank's operation mutual funds where:
  - a price for the units is publicly quoted daily i.e., where the daily NAV is available in public domain; and
  - Mutual fund is limited to investing in the instruments listed in this paragraph.

4.1.3.2 Exposure covered by Financial Collateral post haircuts

₹ in Lacs

Loan Type	Exposure
Total exposure covered by eligible financial collateral	8585.12

5 Securitization Exposure

The Bank does not have any securitization exposure.

6 Market Risk in Trading Book

6.1 The Market risk refers to the risk to a bank resulting from movements in market prices in particular changes in interest rates, foreign exchange rates and equity and commodity prices. In simpler terms, it may be defined as the possibility of loss to a bank caused by changes in the market variables. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Thus, Market Risk is the risk to the bank's earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange and equities, as well as, the volatilities of those changes.

6.2 The Board of Directors of the Bank are responsible for overall risk management of the Bank. The Board approves the policies related to market risk and various related limits

& ratios. The Board strategise the business target for the Bank keeping in view the risk involved.

6.3 The Risk Management Committee of the Board (RMCB) is a committee formed at Board level to support the Board for better control and review. The RMCB reviews and assesses the exposure of the Bank to various market risks and outlines various polices.

6.4 The market risk in trading book is regulated by the Board approved Investment Policy and Trading Policy that ensures that all the deals conducted are in accordance with the prudent business practices and regulatory guidelines issued by Reserve Bank of India from time to time.

6.5 The Investment function of the Bank is monitored by Management Committee of the Board. The Bank has well structured independent Investment Front Office, Mid Office and Back Office with predefined roles.

6.6 The Treasury Mid – Office is responsible to monitor day to day operations and conduct of the treasury function and to make sure the prescribed limits are with held as well as counter party risk is adhered to.

6.7 Reserve Bank of India has not prescribed capital charge for market risk. However, the capital charge on credit risk on Non-SLR investment of the Bank has been taken into account under the Credit Risk measurement.

7 Operational Risk

7.1 Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements In order to mitigate this, internal control and internal audit systems are used as the primary means.

7.2 The Operational Risk of the Bank is regulated by the Risk Management Committee of the Bank, and governed by the Board approved Risk Management Policy.

7.3 The Bank is managing operational risk through various qualitative measures and put in place various set of procedures/internal guidelines. The Bank is reviewing the risk measures and aims to improve the measurement and monitoring mechanism with increase in balance sheet size.

7.4 Reserve Bank of India has not prescribed any capital charge for operational risk for Small Finance Banks.

8 Liquidity Risk and Interest Rate Risk in Banking Book

8.1 The Board is responsible for overall management of liquidity and interest rate risks. The Board decides the strategy, policies and procedures of the Bank to manage liquidity and interest rate risk.

8.2 The Risk Management Committee of the Board (RMCB) is responsible for assessment and control of risk involved. The RMCB sets out risk strategies and manages the regular working of the Bank.

8.3 The Asset/Liability Committee (ALCO) Bank intends, through sound and dynamic funds management, to realize solid operating results produced against a background of a quality balance sheet. ALCO ensures to:

- Review and Decide the Product Pricing (Deposit and Advances)
- Monitor and discuss the status and results of implemented asset/liability management strategies and tactics.
- Review and Decide the Transfer Pricing Policy.
- Review the current and prospective liquidity positions (Structured liquidity Statement and Liquidity Coverage Ratio)
- Review measurement reports on various risks (Liquidity and Interest rate risks) that can be measured with a reasonable degree of effort.
- Review the current and prospective capital levels (risk-based as well as net worth) to determine sufficiency in relation to: expected growth, interest rate risk, price risk, and asset mix/quality.
- Review and approve contingency funding plan.
- Perform an independent review (using internal staff) of the validation and reasonableness of the input, assumptions, and output of our Asset/Liability Management Measurement Models. Review actual net interest income and asset/liability distribution versus budget.
- Measure performance against established standards and, if available against peer group data.
- Review the level and makeup of non-earning assets.
- Review the liquidity and contingency funding conditions of the Bank.

8.4 The Bank has Board approved Asset/Liability Management Policy of the Bank to govern the liquidity and the interest rate risk.

8.5 Liquidity Risk

8.5.1 Liquidity risk is the potential inability to meet the bank's liabilities as they become due. It arises when the banks are unable to generate cash to cope with a decline in deposits or increase in assets. It originates from the mismatches in the maturity pattern of assets and liabilities. Measuring and managing liquidity needs are vital for effective operation of al banks. By assuring a bank's ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing.

8.5.2 Analysis of liquidity risk involves the measurement of not only the liquidity position of the bank on an ongoing basis but also examining how funding requirements are likely to be affected under crisis scenarios.

8.5.3 The Bank is determining the Net funding requirements by analysing the Bank's future cash flows based on assumptions of the future behaviour of assets and liabilities that are classified into specified time buckets and then calculating the cumulative net flows over the time frame for liquidity assessment. Various factors are taken into consideration while determining liquidity of the bank's future stock of assets and liabilities including their potential marketability, the extent to which maturing assets /liabilities will be renewed, the acquisition of new assets / liabilities and the normal growth in asset / liability accounts. The Bank is using various liquidity ratios to monitor the liquidity position of the Bank. The Bank also uses Liquidity Coverage Ratio (LCR). The LCR is regulated by Basel III Norms, promotes short term resilience of banks to potential liquidity disruptions by ensuring that they have sufficient high quality liquid assets (HQLAs) to survive an acute stress scenario lasting for 30 days. The LCR standard aims to ensure that a bank maintains an adequate level of unencumbered HQLAs that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario specified by supervisors.

8.6 Interest Rate Risk in Banking Book

8.6.1 Interest rate risk is the risk where changes in market interest rates might adversely affect bank's financial condition. The immediate impact of changes in interest rates is on the Net Interest Income (NII). A long term impact of changing interest rates is on the bank's net worth as the economic value of bank's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The interest rate risk when viewed from these two perspectives is known as earnings perspective' and 'economic value' perspective, respectively. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing mismatches and is measured both from the earnings and economic value perspective.

8.6.2 Under the earnings perspective, the Bank is preparing Traditional Gap Analysis (TGA) which focuses to measure the level of a bank's exposure to interest rate risk in terms of sensitivity of its NII to interest rate movements. The interest rate gap is a common form of interest rate sensitivity measurement. GAP under TGA is equal to rate sensitive assets (RSA) minus rate sensitive liabilities (RSL). A rate sensitive asset/liability is one whose yield/cost varies with base rate fluctuations. With the TGA methodology the Bank's assets and liabilities are organised into repricing "buckets" using book values.

8.6.3 Under the economic value perspective, the Bank is preparing Duration Gap Analysis (DGA) which focuses to measure the level of a bank's exposure to interest rate risk in terms of sensitivity of Market Value of its Equity (MVE) to interest rate movements. The DGA involves bucketing of all RSA and RSL as per residual maturity/ re-pricing dates in various time bands and computing the Modified Duration Gap (MDG) which is further used in calculation of movement in MVE.

8.6.4 Details of increase (decline) in earnings and economic value of equity for upward (downward) rate shocks based on Balance Sheet as a March 31, 2018 are given below:

₹ in Lacs

Interest Rate Risk	Earning Perspective	Economic Perspective
	Impact on NII	Impact on EVE
If Interest rate were to go up by 100 bps	(384.43)	(1695.82)
If Interest rate were to go down by 100 bps	384.43	1695.82
If Interest rate were to go up by 200 bps	(768.87)	(3391.63)
If Interest rate were to go down by 200 bps	768.87	3391.63

9 Disclosures pertaining to main features of equity and debt capital instruments and liquidity coverage ratio have been disclosed separately on the Bank's website at http://capitalbank.co.in/investor-disclosures