
**PILLAR III DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK
(BASEL III)****1. SCOPE OF APPLICATION**

DCB Bank Ltd. is a scheduled commercial bank which was incorporated on May 31, 1995. The Bank has no subsidiaries.

As on December 31, 2018, the Bank does not have investment in any insurance entity.

2. CAPITAL STRUCTURE

Capital funds are classified into Tier-I and Tier-II capital under the capital adequacy framework.

Tier-I Capital

The Bank's Tier I capital will consist of Common Equity Tier I and Additional Tier I capital. Common Equity Tier 1 (CET1) capital must be at least 5.5% of risk-weighted assets (RWAs) i.e. for credit risk + market risk + operational risk on an ongoing basis and Additional Tier I capital can be a maximum of 1.5%, thus making total Tier I capital to be at least 7%.

In addition to the minimum Common Equity Tier 1 capital of 5.5% of RWAs, banks are also required to maintain a capital conservation buffer (CCB) of 2.5% of RWAs in the form of Common Equity Tier 1 capital. In terms of the RBI guidelines dated March 27, 2014 the implementation of CCB is effective from March 31, 2016 in four stages of increase by 0.625% every year. Consequently, Basel III Capital Regulations will be fully implemented as on March 31, 2019.

Tier-I capital includes paid-up equity capital, share premium, statutory reserves, capital reserves, special reserve, revaluation reserve, other disclosed free reserves and balance in Profit and Loss account. Profits in current financial year may be included in Tier I based on fulfilment of certain conditions regarding incremental provisions for non-performing assets.

Equity Capital

The Bank has authorised share capital of ₹5 billion comprising 500,000,000 equity shares of ₹10/- each. As on December 31, 2018 the Bank has issued subscribed and paid-up capital of ₹3.09 billion, constituting 309,300,708 shares of ₹10/- each. The provisions of the Companies Act, 2013 and other applicable laws and regulations govern the rights and obligations of the equity share capital of the Bank.

Tier-II Capital

The Bank's Tier II capital includes investment reserve, general provision for standard assets and subordinated debt instruments (lower Tier II bonds) eligible for inclusion in Tier II capital.

Subordinated Debt (Lower Tier II bonds)

As on December 31, 2018 the Bank had an outstanding subordinated debt (Unsecured Redeemable Non-convertible Bonds) aggregating ₹ 6,866 million, the details of which are stated below:

(₹ million)

Deemed Date of Allotment	Coupon Rate (% p.a.)	Tenure (in months)	Equivalent Amount as on December 31, 2018
31 March 2016	10.25%	121	866.0
18 November 2016	9.85%	120	1,500.0
17 November 2017	9.85%	120	3,000.0
12 January 2018	9.85%	120	1,500.0
Total			6,866.0

Composition of Capital - Tier I and Tier II

(₹ million)

Particulars	As on December 31, 2018
1. Tier I capital	
1.1 Paid-up share capital	3,093.0
1.2 Reserves	23,389.2
1.3 Gross Tier I capital (1.1 + 1.2)	26,482.2
1.4 Deductions	-
1.5 Total Tier I capital (1.3 - 1.4)	26,482.2
2. Tier II capital	
2.1 Subordinated Debt (Lower Tier II bonds)	6,866.0
2.2 General Provisions/IRA and Revaluation Reserves	938.7
2.3 Gross Tier II capital (2.1 + 2.2)	7,804.7
2.4 Deductions	-
2.5 Total Tier II capital (2.3 - 2.4)	7,804.7
3. Debt capital instruments eligible for inclusion in Upper Tier II capital	
3.1 Total amount outstanding	-
3.2 Of which amount raised during the current year	-
3.3 Amount eligible to be reckoned as capital funds	-
4. Subordinated debt eligible for inclusion in Lower Tier II capital	
4.1 Total amount outstanding	6,866.0
4.2 Of which amount raised during the current year	-
4.3 Amount eligible to be reckoned as capital funds	6,866.0
5. Other deductions from capital	
5.1 Other deductions from capital	-
6. Total eligible capital	
6.1 Total eligible capital (1.5 + 2.5)	34,286.9

3. CAPITAL ADEQUACY

The total Capital to Risk weighted Assets Ratio (CRAR) as per Basel III guidelines works to 15.45% as on December 31, 2018 (as against minimum regulatory requirement of 10.875%). The Tier I CRAR stands at 11.93% as against RBI's prescription of 7.00%. The Bank has followed the RBI guidelines in force, to arrive at the eligible capital, risk weighted assets and CRAR.

Capital requirements for Credit Risk, Market Risk and Operational Risk:

Particulars	(₹ million) As on December 31, 2018
1. Capital requirement for Credit Risk	17,339.9
• Portfolio subject to Standardised Approach	17,164.4
• Securitization Exposures	175.5
2. Capital requirement for Market Risk	746.7
• Standardised Duration Approach	
○ Interest Rate Risk	594.1
○ Foreign Exchange Risk (Including gold)	54.0
○ Equity Risk	98.6
3. Capital requirement for Operational Risk	1,590.8
• Basic Indicator Approach	1,590.8
Total capital requirements at 9% (1 + 2 + 3)	19,677.4
Total capital	34,286.9
CRAR %	15.45 %
Tier-I CRAR %	11.93 %

4. RISK MANAGEMENT FRAMEWORK

The Bank is exposed to various types of risk such as Credit, Market, Operation, Liquidity, Interest Rate, Reputational, Legal and Strategic risk. The Bank has separate and independent Risk Management Department in place which oversees all types of risks in an integrated fashion.

The objective of risk management is to have optimum balance between risk and return. It entails the identification, measurement and management of risks across the various businesses of the Bank. Risk is managed through framework defined in policies approved by the Board of Directors and supported by an independent risk management function which monitors and takes corrective action so that the Bank operates within its risk appetite. The risk management function attempts to anticipate vulnerabilities through quantitative or qualitative examination of the embedded risks in various activities. The Bank continues to focus on refining and improving its risk measurement systems. In addition to ensuring compliance with regulatory requirements, the Bank has developed robust internal systems for assessing capital requirements keeping in view the business objectives.

The Board of Directors (BOD) approves the strategies and policies for Risk Management, based on recommendations of the Risk Management Committee (RMC) of the Board set up to focus upon risk management issues. The RMC reviews various aspects of risk arising from the businesses undertaken

by the Bank. Operating level risk committees comprising of senior management viz. Asset Liability Management Committee (ALCO), the Operational Risk Management Committee (ORCO) and the Credit Risk Management Committee (CRMC) oversee specific risk areas. These committees in turn provide inputs for review by the Risk Management Committee (RMC).

4.1 Risk Management Committee (RMC) of the Board:

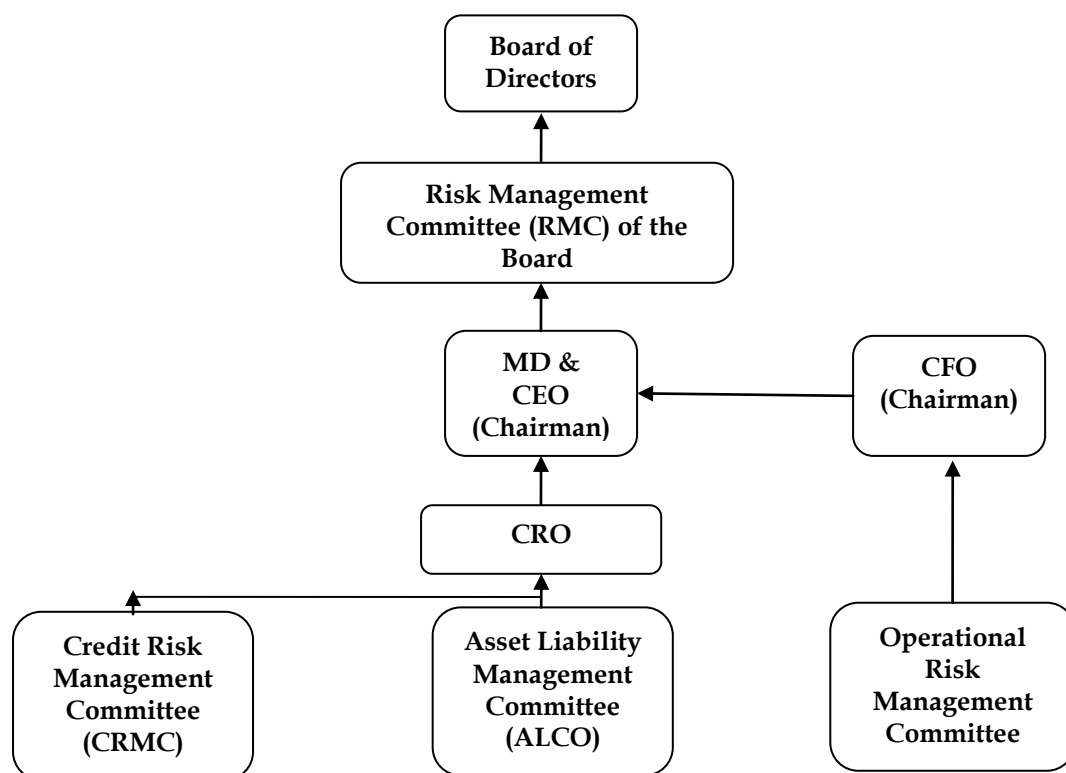
The Risk Management Committee of the Board is the primary tier to oversee implementation of Board approved strategies and policies, recommend setting up of tolerance limits wherever required, monitor implementation of strategies and policies, as well as adherence to prescribed tolerance limits, etc. The RMC oversees the functioning of Executive Level Committees for risk management. For this purpose, the minutes of the meetings of the Executive Level Committees are placed before RMC regularly. Matters relating to Credit risk are routed through the Credit Committee of Board (CCB) which also approves individual credit exposure in excess of executive delegated lending authority.

4.2 Executive Level Committees:

At Executive Management level, the organisational responsibilities for implementing and monitoring Board approved strategies and policies and adhering to prescribed tolerance limits etc. are as under:

Sr. No.	Executive Level Committee	Focus Area	Chairman
1	Asset Liability Management Committee (ALCO)	All aspects of Market Risk management, monitoring & control	Managing Director & Chief Executive Officer (MD & CEO)
2	Credit Risk Management Committee (CRMC)	All aspects of Credit Risk management, monitoring & control	Managing Director & Chief Executive Officer (MD & CEO)
3	Operational Risk Management Committee (ORCO)	All aspects of Operational Risk management, monitoring & control	Chief Financial Officer (CFO)

All the Executive Level Committees meet at least once in a month. ALCO however meets more frequently depending upon market conditions.



Note: Information Security is a part of Operational Risk - IT and reports to the Chief Risk Officer, who in turn reports to the MD & CEO.

5. CREDIT RISK

5 (a) Credit risk is defined as 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 counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

The Bank adopts the definition of 'past due' and 'impaired credits' (for accounting purposes) as defined by Reserve Bank of India under Income Recognition, Asset Classification and Provisioning (IRAC) norms (vide RBI Master Circular dated July 1, 2015).

5.a.i Credit Risk Management:

Credit Risk Management Committee (CRMC) headed by MD & CEO is the top level functional committee for managing credit risk. The committee is responsible for implementation of Credit Risk Management policy approved by the Bank's Board. The committee considers and takes decision necessary to manage and control credit risk within the overall quantitative prudential limits approved by the Bank's Board. The committee is entrusted with the responsibilities to formulate standards for presentation of credit proposals, financial covenant, rating standards and benchmarks. The committee also oversees compliance with Pillar 2 requirements under Basel III such as ICAAP and Stress Test.

The Bank has implemented RAM rating model of CRISIL which is being used to assess the credit rating of all business loans exceeding ₹ 10 million. The rating serves as a single point indicator of the diverse counterparty risk for taking credit decision. The rating migration is monitored on regular interval.

The Bank has a well-developed credit monitoring system to monitor the health of the loan accounts and to detect the delinquencies at the initial stage. A separate department independent of the business units is monitoring the transactions in all the Corporate, Agri and Inclusive Banking (AIB), SME and MSME exposures with credit limits exceeding ₹ 10million with a view to detect any early warning signals.

The Bank adopts an integrated approach to credit risk management, which encompasses:

- Establishment and articulation of corporate priorities
- Institution and inculcation of an appropriate credit culture
- Determination of specific credit risk strategy and profile
- Implementation of appropriate credit risk controls
- Monitoring the effectiveness of credit risk controls.

Though the Bank has implemented the Standardized approach for regulatory capital measurement for credit risk, the necessary steps for implementing Internal Rating Based Approach have been initiated.

5.a.ii Credit Strategy and Risk Profile:

The Bank adopts a credit risk strategy and risk appetite, which is in line with its risk taking ability to ensure conservation and growth of shareholder funds, with a proper balance between risk and reward. Financial resources are allocated to best optimise the risk reward ratio.

There is a clearly articulated definition of acceptable credit risk, based upon:

- Identification of target markets/segments
- Establishing of characteristics of desirable customers within the target market
- Assessing whether adequate resources are available to support the business
- Ensuring that all economic and regulatory requirements are complied with
- Ensuring that the portfolio is consistent with the Bank's strategy and objectives especially in relation to risk concentration, maturity profile and liquidity management.

5.a.iii Credit Risk Controls:

Credit risk controls focus on identification, measuring, monitoring and managing the assumed risks and include:

- A documented credit policy and credit risk management policy
- Approval process with delegated authorities
- Asset quality and risk rating system and its verification
- Effective loan disbursement mechanism to minimise the legal risk
- Effective loan administration to ensure past-due management and bad loan detection
- A loan review mechanism
- Portfolio management tools to manage portfolio risks

Management of credit risk is at three levels:

- Strategic or Portfolio level, so as to ensure that no single event can have a significant adverse impact
- Established credit policy to have a minimum standard for assuming risk
- Reliance on the competence of trained staff to make sound credit decisions.

There is a clear separation in functional responsibilities between:

- Origination and sales
- Credit assessment and approvals
- Post- sanction loan administration and
- Credit Risk Management.

The Bank relies upon formal and conventional risk assessment, viz.:

- The ability and willingness of borrowers to repay
- Dependence primarily on cash flows for repayment with security taken to provide a secondary source of repayment
- Quality of data and analysis thereof forms the basis of assessment and not external reputation or unsubstantiated beliefs
- Rational assessment of probability of default and assessment of 'Worst Case Scenario'
- Transparency and communication of all relevant facts (negative as well as positive) necessary for making an informed credit decision
- Documentation of all assessment, rationale and decisions.

Know Your Customers 'KYC' forms the bedrock of initiating and sustaining any relationship.

The Bank's selection of personnel and systems of rewarding performance is aligned to meet the Bank's stated key priorities. There is a commitment to training and upgrading of staff skills. Strong 'ownership' of exposures is encouraged, through rewards as well as strong accountability.

5 (b) Total gross credit risk exposure as on December 31, 2018:

	(₹ million)
Category	Exposure
Fund based ¹	2,63,843.9
Non fund based ²	21,021.2
Total	2,84,865.1

Note:

1. Fund based credit exposure excludes Cash in hand, Balance with RBI, SLR investments, deposits placed NABARD, SIDBI & NHB, Fixed and Other assets.
2. Non-fund based exposure includes outstanding Letter of Credit, Acceptances and Bank Guarantee exposures.

Exposures reported above include limits or outstanding whichever is higher, for other than term loans and NPAs. In case of terms loans and NPAs, the outstanding amount has been considered for this purpose.

5 (c) Geographical distribution of exposures as on December 31, 2018:

(₹million)

Category	Domestic	Overseas
Fund based	2,63,843.9	-
Non fund based	21,021.2	-
Total	2,84,865.1	-

5 (d) Industry type distribution of exposures as on December 31, 2018:

(₹million)

Industry	Fund Based	Non Fund Based	Total
Retail Loans	41,625.6	220.5	41,846.2
Housing Loans	35,010.4	0.6	35,010.9
Auto Loans	495.3	-	495.3
Personal Loan	761.1	-	761.1
Other Loans (Gold Loans, Loans against deposits & Shares etc.)	4,838.3	220.0	5,058.3
Staff Loans	520.5	-	520.5
Trade	63,769.4	1,743.1	65,512.5
Trade - Retail	32,554.0	344.6	32,898.6
Trade - Wholesale	31,215.4	1,398.5	32,613.9
Agriculture	23,853.8	408.3	24,262.1
Logistics	21,799.7	934.8	22,734.5
Logistics - Transport Operators (includes Commercial Vehicle loans)	19,575.5	113.1	19,688.6
Logistics - Others	2,224.1	821.7	3,045.9
Construction incl. Residential Housing	18,838.4	2,370.9	21,209.3
Miscellaneous Services	20,301.3	521.3	20,822.6
of which Retail Business Loans	12,536.6	-	12,536.6
NBFC	17,961.1	517.7	18,478.8
NBFC - HFC	7,358.1	20.0	7,378.1
NBFC - AFC	2,611.9	-	2,611.9
NBFC - Others	7,991.1	497.7	8,488.8
All Engineering	6,620.3	2,223.8	8,844.2
Textiles	8,027.8	129.9	8,157.7
Infrastructure (Including Energy, Telecommunications, Water & Sanitation and Social & Commercial Infra)	6,799.7	1,256.3	8,056.0
Food Processing	6,094.7	452.6	6,547.3
Basic Metal & Metal Products	4,384.2	1,287.1	5,671.3
Capital Market (including Brokers)	357.5	3,745.1	4,102.6
Real Estate Activities incl. Lease Rent Discounting	3,330.6	189.7	3,520.2
Chemical & Chemical Products	3,072.9	583.1	3,656.0
Travels & Tourism	2,815.4	472.1	3,287.5
Gems & Jewellery	2,800.4	426.0	3,226.4
IT & related	1,406.4	169.2	1,575.6
Rubber, Plastic & their Products	1,343.0	205.4	1,548.4
Paper & Paper Products	1,232.3	323.4	1,555.7
Finance (Others)	1,210.0	508.2	1,718.3
Wood & Wood Products	1,040.8	1.0	1,041.8
Vehicles, Vehicle Parts & Transport Equipments	867.0	1.2	868.2
Renting of equipments	763.5	64.3	827.9
Petroleum, Coal Products & Nuclear fuels	540.1	2.7	542.7
Cement & Cement Products	300.4	19.5	319.9
Leather & Leather Products	320.2	4.7	325.0

Industry	Fund Based	Non Fund Based	Total
Beverages (Excl. Tea & Coffee) and Tobacco	268.6	-	268.6
Mining & Quarrying	197.6	9.2	206.9
Glass & Glassware	103.6	0.2	103.8
Other Manufacturing	1,422.0	67.3	1,489.3
Residual	375.6	2,162.6	2,538.2
Grand Total	263,843.9	21,021.2	284,865.1

* Note : As on December 31, 2018, out of the total fund based loans outstanding, about 76% of the loans are towards loan size of Rs. 30 million or less.

5 (e) Residual Contractual Maturity break down of assets

(₹million)

Assets	Next Day	2-7 Days	8-14 Days	15-30 days	31days to 2 months	2 months - 3 months	3 Months -6 Months	6 Months -1 Year	1-3 Years	3-5 Years	Above 5 Years	TOTAL
Cash	3,055.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3,055.0
Balance with RBI	210.3	237.9	190.3	276.8	488.2	444.1	1,211.9	1,588.3	4,405.2	415.3	94.6	9,562.8
Balances with Other Banks	11,236.0	592.4	0.0	1.5	0.0	0.0	0.0	0.0	178.3	0.1	0.0	12,008.4
Investments	0.0	349.9	953.9	2,186.3	1,922.1	2,875.9	4,188.8	5,285.6	11,580.9	13,389.1	32,424.9	75,157.3
Advances	840.4	2,693.9	2,711.4	1,080.2	6,219.7	4,071.4	9,208.7	16,804.7	88,741.1	26,509.0	70,003.5	2,28,883.9
Fixed Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5,020.7	5,020.7
Other Assets (net)	221.2	332.1	217.6	718.5	281.9	313.5	55.4	1,029.6	3,315.0	1,485.0	2,159.8	10,129.6
Total	15,562.9	4,206.2	4,073.2	4,263.4	8,911.8	7,704.9	14,664.7	24,708.2	1,08,220.5	41,798.5	1,09,703.4	3,43,817.7

5 (f) Advances and Provisions:

(₹ million)

Particulars	As on December 31, 2018
(a) Amount of NPAs (Gross)	4,451.2
i. Substandard	2,252.6
ii. Doubtful 1	1,277.6
iii. Doubtful 2	897.4
iv. Doubtful 3	22.5
v. Loss	1.1
(b) Net NPAs	1,634.4
(c) NPA Ratios	
i. Gross NPAs to gross advances (%)	1.92 %
ii. Net NPAs to Net Advances (%)	0.71 %
(d) Movement of NPAs(Gross)	
i. Opening balance (as on March 31, 2018)	3,690.3
ii. Additions during the year	3,198.3
iii. Reductions during the year	2,437.4
iv. Closing balance	4,451.2
(e) Movement of provisions for NPAs (excluding provision on Standard Assets)	
i. Opening balance(as on March 31, 2018)	2,216.4
ii. Provision made during the year	1,506.6
iii. Write-off / write-back of excess provisions	906.2
iv. Closing balance	2,816.8
(f) Amount of Gross Non-Performing Investments	146.8
Less : Amount of provisions held for non-performing investments	87.5
Amount of provisions held for net non-performing investments	59.3
(g) Movement of depreciation on investments	
i. Opening balance(as on March 31, 2018)	102.3
ii. Add: Provision made during the year	31.9
iii. Less: Write-off/ write-back of excess provision during the year (including depreciation utilised on the sale of securities)	24.0
iv. Closing balance	110.2

6. CREDIT RISK: Disclosures for portfolio subject to the Standardised Approach

6 (a) The Bank has used the ratings of the following domestic external credit rating agencies(arranged in alphabetical order) for the purposes of risk weighting their claims for capital adequacy purposes:

- a. Brickwork Ratings India Pvt. Limited (Brickwork)
- b. CARE Ratings Limited
- c. CRISIL Limited
- d. ICRA Limited
- e. India Ratings and Research Private Limited (India Ratings) and
- f. SME Rating Agency of India Ltd (SMERA)
- g. Infomerics Valuation and Rating Private Limited

International credit rating agencies (arranged in alphabetical order) for the purposes of risk weighting their claims for capital adequacy purposes where specified:

- a. Fitch;
- b. Moody's; and
- c. Standard & Poor's

6 (b)A description of the process used to transfer public issuer ratings onto comparable assets in the banking book:

- Bank has used short term ratings for assets with maturity up to one year and long-term ratings for assets maturing after one year as accorded by the approved external credit rating agencies.
- Bank has not cherry picked ratings. Bank has not used one rating of a CRA (Credit Rating Agency) for one exposure and another CRA's rating for another exposure on the same counterparty unless only one rating is available for a given exposure.
- Notwithstanding the repayable on demand condition, cash credit exposures have been subjected to Long-term rating.
- If an issuer has a long term external credit rating that warrants RW (Risk Weight) of 150%, all unrated exposures on the same issuer whether long or short is assigned the same 150% RW unless mitigated by recognised Credit Risk Mitigation (CRM) techniques.
- Bank has used only solicited rating from the recognised CRAs. In case the issuer has multiple ratings from CRAs, the Bank has a policy of choosing (if there are two or more ratings) lower rating.
- Where RW associated with the rating by a CRA for a specific investment instrument is lower than one corresponding to unrated exposure, but the Bank's exposure is not in that instrument but some other debt, the RW for the rated exposure has been applied to Bank's unrated exposure provided the latter ranks pari-passu or senior to the specific rated exposure and the maturity of Bank's claim is not later than the rated exposure.
- If either the issuer or a single issue has been rated warranting RW equal or higher than unrated claim, a claim on the same issuer which is unrated but ranks pari-passu or subordinate to the rated exposure has been assigned the same RW as applicable to the rated exposure.
- No recognition of CRM technique has been taken into account in respect of a rated exposure if that has already been factored by the CRA while carrying out the rating.

For exposure amounts after risk mitigation subject to the standardised approach, amount of a Bank's outstanding (rated and unrated) in the following three major risk buckets as well as those that are deducted as on December 31, 2018 are as follows:

(₹ million)

Particulars	Fund based	Non fund based
Below 100% risk weight	1,75,274.5	7,871.7
100% risk weight	73,493.2	7,863.0
More than 100% risk weight	15,076.2	5,286.4
Total	2,63,843.9	21,021.2

Table DF 17- Summary comparison of accounting assets vs. leverage ratio exposure measure

Leverage Ratio:

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.

$$\text{Leverage Ratio} = \frac{\text{Capital Measure (Tier 1 Capital)}}{\text{Exposure Measure}}$$

Particulars	As on December 31, 2018
Tier 1 Capital	26,482.2
Exposure measure	366,835.5
Leverage ratio	7.22%