

PILLAR III DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK (BASEL III)

1. SCOPE OF APPLICATION

Development Credit Bank Limited is a scheduled commercial bank which was incorporated on May 31, 1995. The Bank has no subsidiaries.

As on December 31, 2013, 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 includes paid-up equity capital, statutory reserves, other disclosed free reserves, and capital reserves as mandated by RBI.

Equity Capital

The Bank has authorized share capital of Rs. 5 billion comprising 500,000,000 equity shares of Rs. 10/- each. As on December 31, 2013 the Bank has issued subscribed and paid-up capital of Rs. 2.50 billion, constituting 250,275,872 shares of Rs. 10/- each. The provisions of the Companies Act, 1956 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 revaluation 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, 2013, the Bank had an outstanding subordinated debt (Unsecured Redeemable Non-convertible Bonds) aggregating Rs. 650.00 million, the details of which are stated below:

(₹ million)				
Issue Series	Deemed Date of Allotment	Coupon Rate (% p.a.)	Tenure (in months)	Equivalent Amount as on December 31, 2013
IV	August 31, 2009	11.25	68	650.0
Total				650.0

3. CAPITAL ADEQUACY AS ON DECEMBER 31, 2013

The total Capital to Risk Weighted Assets Ratio (CRAR) as per Basel III guidelines works to 12.86% as on December 31, 2013 (as against minimum regulatory requirement of 9%). The Tier I CRAR stands at 11.98%. 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:

(₹ million)

Particulars	As on December 31, 2013
1. Capital requirement for Credit Risk	6,278.5
• Portfolio subject to Standardised Approach	6,079.8
• Securitization Exposures	198.7
2. Capital requirement for Market Risk	101.6
• Standardised Duration Approach	
○ Interest Rate Risk	70.1
○ Foreign Exchange Risk (Including gold)	31.5
○ Equity Risk	0.0
3. Capital requirement for Operational Risk	506.6
• Basic Indicator Approach	506.6
Total capital requirements at 9% (1 + 2 + 3)	6,886.7
Total capital	10,120.6
CRAR %	12.86%
Tier-I CRAR %	11.98%

4. RISK EXPOSURE AND ASSESSMENT

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:

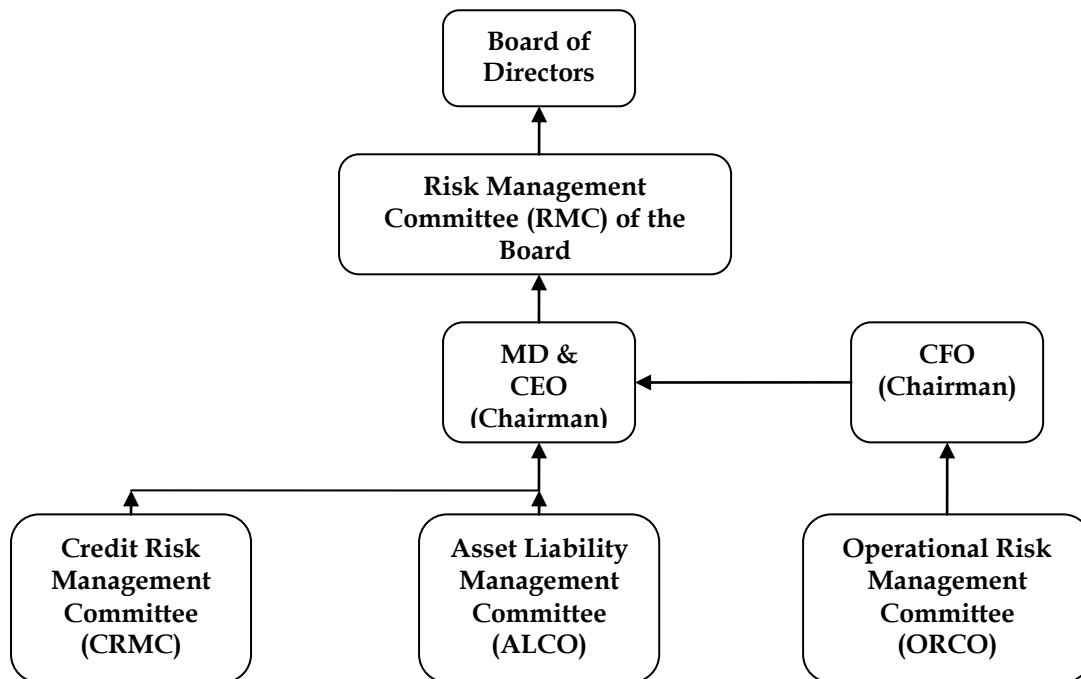
The Risk Management Committee of the Board is the primary tier to oversee implementation of Board approved strategies and policies, recommend setting up of tolerance limits wherever required, monitor implementation of strategies and policies, as well as adherence to prescribed tolerance limits etc. The 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 organizational 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.



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.

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 II requirements under Basel II such as ICAAP and Stress Test.

The Bank has successfully implemented RAM rating model of CRISIL which is being used to assess the credit rating of all business loans exceeding Rs. 1 Cr. 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 Rs. 1 Cr 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

The Bank has implemented the Standardized approach for regulatory capital measurement for credit risk.

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 optimize 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, 2013:

(₹ million)

Category	Exposure
Fund based ¹	96,223.3
Non fund based ²	21,234.8
Total	117,458.1

Note:

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

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, 2013:

(₹ million)

Category	Domestic	Overseas
Fund based	96,223.3	-
Non fund based	21,234.8	-
Total	117,458.1	-

5(d) Industry type distribution of exposures as on December 31, 2013:

(₹ million)

Industry	Fund based	Non fund based
	Exposure	Exposure
Agriculture	9,758.52	348.94
All Engineering	3,599.66	2,488.60
Basic Metal & Metal Products	3,093.20	624.06
Beverages (Excl. Tea & Coffee) and Tobacco	1,193.76	-
Brokers	134.23	438.83
Capital Market Loans to Individuals	231.93	992.50
Cement & Cement Products	708.36	19.17
Chemical & Chemical Products	4,099.30	1,816.63
Commercial Real Estate	4,179.39	207.09
Construction	5,172.39	3,441.28
Finance (Others)	207.98	160.00
Food Processing	4,359.54	32.05
Gems & Jewellery	856.41	167.50
Glass & Glassware	67.16	-
Infrastructure (including Energy & Telecommunications)	569.00	1,272.00
IT & related	738.86	120.51
Leather & Leather Products	366.83	14.68
Logistics	2,354.69	75.68
Mining & Quarrying	37.23	12.00
Misc. Services	1,322.48	1,311.76
NBFC	4,650.57	-
Other Manufacturing	233.36	44.73
Paper & Paper Products	146.73	12.98
Petroleum, Coal Products & Nuclear fuels	472.14	282.59
Renting of equipments	361.44	16.61
Rubber, Plastic & their Products	638.16	426.60
Textiles	1,292.59	17.75
Trade (Retail + Wholesale)	8,768.00	4,858.94
Travels & Tourism	481.89	164.77
Vehicles, Vehicle Parts & Transport Equipments	410.10	0.07
Wood & Wood Products	510.61	-
Residual	2,355.71	888.91
Retail Loans*	32,851.06	977.54
Total Exposure	96,223.28	21,234.77

Note : Retail Loan includes Housing loans, Retail Business loans, Gold loans, Loan against term deposits, Vehicle loans, Personal & Consumer loans and Staff loans.

5 (e) Residual contractual maturity break-down of assets as on December 31, 2013:

(₹ million)

Assets	29 Days - 3 Months - 6 Months - Above 5										TOTAL	
	Next Day	2-7 Days	8-14 Days	15-28 Days	Months	6 Months	1 Year	1-3 Years	3-5 Years	Years		
Cash	967.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	967.7
Balance with RBI	150.3	111.9	105.3	103.6	390.0	327.4	692.9	1,558.4	104.3	7.0	3,551.1	
Balances with Other Banks	524.8	787.5	0.0	1.1	379.0	0.1	0.1	4.1	0.0	0.0	1,696.6	
Investments	52.6	13.2	449.1	1,225.8	3,881.2	2,709.6	2,050.1	5,680.2	3,562.6	15,921.6	35,546.0	
Advances (Excl NPA provn)	817.8	765.0	658.7	780.4	4,679.9	4,095.8	6,885.2	27,097.7	7,310.0	20,524.0	73,614.5	
Fixed Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,366.1	2,366.1	
Other Assets (net)	255.8	79.3	26.3	67.1	229.6	137.8	34.9	1,026.3	210.4	80.2	2,147.6	
Total	2,768.9	1,756.9	1,239.5	2,177.9	9,559.7	7,270.8	9,663.3	35,366.7	11,187.2	38,898.8	119,889.8	

5 (f) Advances and Provisions:

(₹ million)

Particulars	As on December 31, 2013
(a) Amount of NPAs (Gross)	
i. Substandard	489.4
ii. Doubtful 1	477.8
iii. Doubtful 2	227.2
iv. Doubtful 3	463.3
v. Loss	421.5
(b) Net NPAs	570.4
(c) NPA Ratios	
i. Gross NPAs to gross advances (%)	2.77%
ii. Net NPAs to Net Advances (%)	0.77%
(d) Movement of NPAs(Gross)	
i. Opening balance	2,350.8
ii. Additions during the year	237.5
iii. Reductions during the year	509.0
iv. Closing balance	2,079.2
(e) Movement of provisions for NPAs (excluding provision on Standard Assets)	
i. Opening balance	1,779.3
ii. Provision made during the year	123.9
iii. Write-off / write-back of excess provisions	394.3
iv. Closing balance	1,508.9
(f) Amount of Non-Performing Investments	0.0
(g) Amount of provisions held for non-performing investments	0.0
(h) Movement of depreciation on investments	
i. Opening balance	2.2
ii. Add: Provision made during the year	6.2
iii. Less: Write-off/ write-back of excess provision during the year (including depreciation utilized on the sale of securities)	8.4
iv. Closing balance	0.00

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 for the purpose of risk weighting their claims on the domestic entities for capital adequacy purpose:

- i. CRISIL Ltd

- ii. Credit Analysis and Research Limited and
- iii. ICRA Limited

In case of overseas entities, international Credit rating agencies, Standard and Poor's, Moody's and Fitch have been used.

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 recognized Credit Risk Mitigation (CRM) techniques.
- Bank has used only solicited rating from the recognized CRAs. In case the issuer has multiple ratings from CRAs, the Bank has a policy of choosing (if there are two 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 junior to the rated exposure has been assigned the same RW as 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, 2013 are as follows:

Particulars	(₹ million)	
	FB	NFB
Below 100% risk weight	47,313.6	2,995.0
100% risk weight	31,935.6	8,645.1
More than 100% risk weight	1,628.8	537.9
Total	80,878.0	12,178.0