DBS Bank Ltd., India

Basel II: Pillar 3 Disclosures

as at 31 March 2013

(Currency: Indian rupees in thousands)

1. Scope of application

Qualitative Disclosures

DBS Bank Ltd., India ('the Bank') operates in India as a branch of DBS Bank Ltd., Singapore a banking entity incorporated in Singapore with limited liability. As at 31 March 2013, the Bank has a presence of 12 branches across 12 cities. The Bank does not have any subsidiaries in India and the disclosures contained herein only pertains to the Bank.

Quantitative Disclosures

Capital Deficiencies: The Bank does not have any subsidiaries in India and is accordingly not required to prepare Consolidated Financial Statements. Also, it does not have any interest in Insurance Entities.

2. Capital Structure

Qualitative Disclosures

Composition of **Tier 1** Capital

- Interest free Capital funds injected by Head office
- Statutory Reserves calculated at 25% net profits of each year
- Capital retained in India for CRAR purposes and
- Capital Reserves

Composition of **Tier 2** Capital

- Subordinated Debt
- Investment Reserve Account
- Provisions on Standard Assets/Derivatives,
- Provision for Country Risk and
- Excess Provision on sale of NPA

(Currency: Indian rupees in thousands)

2. Capital Structure *(Continued)*

Capital Funds

	Particulars	31 Mar 13
A.	**Tier I Capital**	**24,366,967**
	Of which	
	- Capital (Funds from Head Office)	**14,603,321**
	- Reserves and Surplus	**11,492,955**
	- Amounts deducted from Tier I capital ;	
	- Deferred Tax Asset	**(1,578,201)**
	- Adjustment for less liquid positions	**(151,108)**
B.	**Tier 2 Capital (net of deductions)**	
	Of which	**9,870,712**
	B.1 Subordinated debt eligible for inclusion in Tier 2 capital	
	- Total amount outstanding	**39,649,596**
	- Of which amount raised during the period	-
	- Amount eligible as capital funds	**8,685,600**
	B.2 Other Tier 2 Capital	
	- Investment reserve account	**236,517**
	- Provision for Standard Assets/Derivatives	**815,538**
	- Provision for Country Risk	**12,057**
	- Excess Provision on sale of NPA	**121,000**
C.	**Total Eligible Capital**	**34,237,679**

Particulars	31 Mar 13
Tier 1 Capital	**24,366,967**
Total Capital	**34,237,679**
Total Capital Required	**23,715,826**
Tier 1 Capital ratio	**9.25%**
Total Capital Adequacy ratio	**12.99%**

3. Capital Adequacy

Qualitative disclosures

The CRAR of the Bank is 12.99% as computed under Basel II norms. Under the earlier Basel I norms, the CRAR would have been 12.04%. The ratio under both frameworks is higher than the minimum regulatory CRAR requirement of 9%.

The Bank's capital management framework is guided by the existing capital position, proposed growth and strategic direction. Growth opportunities have resulted in an increasing and continuing need to focus on the effective management of risk, and commensurate capital to bear that risk. The Bank carefully assesses its growth opportunities relative to the capital available to support them, particularly in the light of the economic environment and capital requirements under Basel II and Basel III applicable from April 2013. The Bank maintains a strong discipline over capital allocation and ensuring that returns on investment cover capital costs.

(Currency: Indian rupees in thousands)

3. Capital Adequacy *(Continued)*

Quantitative disclosures

	Particulars	31 Mar 13
A	Capital requirements for Credit Risk *(Standardised Approach)*	**17,330,844**
B	Capital requirements for Market Risk *(Standardised Duration Approach)*	
	- Interest rate risk	**4,316,335**
	- Foreign exchange risk	**315,000**
	- Equity risk	**-**
	- Unearned Credit spreads	**577,919**
C	Capital requirements for Operational risk *(Basic Indicator Approach)*	**1,175,728**
D	Adjustment for Prudential Floor	**-**
E	Capital Adequacy Ratio of the Bank (%)	**12.99%**
F	Tier 1 CRAR (%)	**9.25%**

4. General Disclosures

As part of overall corporate governance, the Group Board has approved a comprehensive Integrated Risk Framework covering risk governance for all risk types and for all entities within the Group, including India. This framework defines authority levels, oversight responsibilities, policy structures and risk appetite limits to manage the risks that arise in connection with the use of financial instruments. On a day-to-day basis, business units have primary responsibility for managing specific risk exposures while Risk Management Group (RMG) exercises independent risk oversight on the Group as a whole. RMG is the central resource for quantifying and managing the portfolio of risks taken by the Group as a whole.

A) General Disclosures for Credit Risk

Qualitative Disclosures

Credit Risk Management Policy

The credit policies and basic procedures of the Bank relating to its lending activities are contained in the Local Credit / Loan Policy of the Bank, Core Credit Policy at Singapore and the Credit Manual. These are based on the general credit principles, directives / guidelines issued by the RBI from time to time as well as instructions and guidelines of DBS Bank Ltd, Singapore (hereinafter referred to as ‘the Head Office’). In the unlikely event of any conflict amongst the RBI guidelines and Head Office Guidelines, the more conservative policy / guideline is followed.

4. General Disclosures *(Continued)*

A) General Disclosures for Credit Risk (Continued)

Qualitative Disclosures (Continued)

Credit Risk Management Policy *(Continued)*

The Core Credit Policy and the Credit / Loan policy outlines the Bank's approach to Credit Risk Management and sets out the rules and guidelines under which the Bank would develop and grows its lending business. These policies provide guidance to the Bank's Corporate Banking, SME Banking and Financial Institutions Group to manage the growth of their portfolio of customer assets in line with the Bank's credit culture and profitability objectives, taking into account the capital needed to support the growth.

Supplementary policies to the main Core Credit Policy and the Credit / Loan policy have also been laid out, for certain types of lending and credit-related operations. These include subject specific policies relating to risk ratings, Default policy, Specialized Lending etc., as well as guidelines for Real Estate lending, NBFC lending, hedging of FX exposures, credit risk mitigation, sectoral and individual / group borrower limits, bridge loans, bill discounting, etc.

Responsibility for monitoring post-approval conditions and risk reporting resides with the Credit Control Unit (CCU), which reports in to Head of CCU in Singapore, with local oversight of the Senior Risk Executive (SRE) in India. The Risk Based Supervision (RBS) submission to RBI contains further details on the same.

Advances are classified into performing and non-performing advances (NPAs) as per RBI guidelines as well as MAS Guidelines. NPA's are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI as well as MAS, using the more conservative approach wherever there is a difference.

Quantitative Disclosures

Credit Exposure

Particulars	31 Mar 13
Fund Based (Gross Advances)	**141,111,292**
Non Fund Based *	**195,666,454**

* The amount includes trade exposures after applying credit conversion factor and Credit equivalent of FX/derivative exposures.

The Bank does not have overseas operations and hence exposures are restricted to the domestic segment.

Basel II: Pillar 3 Disclosures *(Continued)*

as at 31 March 2013

(Currency: Indian rupees in thousands)

4. General Disclosures *(Continued)*

Industry wise Exposures (Fund Based Advances)

Industry	31 Mar 13
Bank	13,923,819
Infrastructure	13,666,287
Construction	10,392,067
Engineering	8,808,992
NBFC's	7,604,087
Beverages	7,108,571
Drugs and Pharmaceuticals	6,930,872
Iron & Steel	6,736,174
Metal & Metal Products	6,717,714
Mining	5,585,366
Manufacturing	4,312,775
Petroleum	4,205,000
Other Chemicals, Dyes, Paints, etc	4,098,873
Vehicles, Vehicle Parts and Transport Equipments	3,582,658
Telecommunications	3,485,655
Paper & Paper Products	3,391,368
Textiles	3,287,431
Trading	3,117,885
Food Processing	2,762,991
Electrcity	1,955,011
Electronics	1,711,545
Services	1,693,642
Rubber, Plastic and their Products	1,616,411
Energy	1,373,708
Hospitality	1,315,062
Computer Software	1,098,213
Glass & Glassware	1,050,000
Residual advances	932
Other industries	9,578,183
Total Credit Exposure	**141,111,292**

Industry wise Exposures (Non - Fund Based)*

Industry	31 Mar 13
Bank	120,830,803
Electricity	6,126,437
Manufacturing	4,143,088
Other Chemicals, Dyes, Paints, etc	3,951,935
Petroleum	3,725,732
Construction	2,992,977
Iron & Steel	2,843,826
Telecommunications	2,738,618
Infrastructure	2,159,305
NBFC's	2,148,113
Engineering	2,110,784
Trading	2,093,201
Drugs and Pharmaceuticals	1,819,954
Power	1,602,702
Information & Technology/Communication	1,509,293
Services	1,460,076
Cement	1,350,517

(Currency: Indian rupees in thousands)

4. General Disclosures *(Continued)*

Industry wise Exposures (Non - Fund Based)* *(Continued)*

Industry	31 Mar 13
Energy	1,266,510
Rubber, Plastic and their Products	1,233,058
Automobiles including trucks	1,232,327
Vehicles, Vehicle Parts and Transport Equipments	1,146,993
Textiles	1,053,668
Hospitality	982,720
Computer Software	945,194
Metal & Metal Products	923,070
Other industries	23,275,553
Total Credit Exposure	**195,666,454**

* The amount includes trade exposures after applying credit conversion factor and Credit equivalent of FX/derivative exposures.

Basel II: Pillar 3 Disclosures *(Continued)*

as at 31 March 2013

(Currency: Indian rupees in thousands)

4. General Disclosures *(Continued)*

Maturity of Assets as at 31 March 2013

Particulars	Cash	Balance with RBI	Balance with Banks	Investments	Loans & Advances	Fixed Assets	Other Assets
1 day	32,711	66,107	14,056,233	58,076,738	20,595,323	-	385,099
2–7 days	-	3,275,303	749,302	14,062,007	4,902,795	-	91,460
8–14 Days	-	1,153,832	-	5,922,961	9,316,147	-	108,627
15–28 Days	-	890,535	-	4,303,453	11,380,651	-	117,289
29 Days–3 Months	-	904,804	-	7,285,684	38,105,876	-	434,500
3–6 Months	-	397,692	-	4,062,176	20,368,271	-	236,042
6 Months – 1 Year	-	426,309	-	64,768,951	9,365,470	-	360,353
1–3 Years	-	394,894	2,500	8,343,129	12,590,853	-	398,461
3–5Years	-	114,507	-	545,762	10,580,584	-	380,744
Over 5Years	-	2,071,475	-	14,301,826	1,374,632	527,724	59,251,597
Total	**32,711**	**9,695,458**	**14,808,035**	**181,672,687**	**138,580,602**	**527,724**	**61,764,172**

(Currency: Indian rupees in thousands)

4. General Disclosures *(Continued)*

Classification of NPA's

Particulars	31 Mar 13
Amount of NPAs (Gross)	**5,820,327**
Substandard	**4,233,692**
Doubtful 1	**1,173,961**
Doubtful 2	**412,674**
Doubtful 3	**-**
Loss	**-**

Movement of NPAs and Provision for NPAs

		Particulars	31 Mar 13
A		Amount of NPAs (Gross)	**5,820,327**
B		Net NPAs	**3,289,637**
C		NPA Ratios	
	-	Gross NPAs to gross advances (%)	**4.12%**
	-	Net NPAs to net advances (%)	**2.37%**
D		Movement of NPAs (Gross)	
	-	Opening balance as of the beginning of the financial year	**2,146,623**
	-	Additions	**4,236,391**
	-	Reductions on account of recoveries/ write - offs	**562,687**
	-	Closing balance	**5,820,327**
E		Movement of Provision for NPAs	
	-	Opening balance as of the beginning of the financial year	**1,372,266**
	-	Provision made during the year	**1,718,412**
	-	Write – offs / Write – back of excess provision	**559,988**
	-	Closing balance	**2,530,690**

Amount of Non-Performing Investments and amount of provisions held for non-performing investments: INR Nil

Movement in Provisions Held towards Depreciation on Investments

Particulars	31 Mar 2013
Opening Balance	**128,083**
Add: Provisions Made During the Year	**-**
Less: Write off / Write back of Excess provisions during the Year	**124,534**
Closing Balance	**3,549**

(Currency: Indian rupees in thousands)

5. Disclosures for Credit Risk: Portfolios subject to Standardised approach

Qualitative Disclosures

Currently based on our clientele, ratings of the following agencies have been used i.e. CARE, CRISIL, Fitch India, ICRA, Brickwork, SMERA, S&P, Moody's and Fitch for all exposures. The Bank assigns Long term credit ratings accorded by the chosen credit rating agencies for assets which have a contractual maturity of more than one year. However, in accordance with RBI guidelines, the Bank classifies all cash credit exposures as long term exposures and accordingly the long term ratings accorded by the chosen credit rating agencies are assigned. Currently the Bank uses issuer ratings. In accordance with RBI guidelines, for risk-weighting purposes, short-term ratings are deemed to be issue-specific.

Quantitative Disclosures

Categorization of Advances (outstanding net of provisions) classified on the basis of Risk Weightage is provided below:

Particulars	31 Mar 13
< 100 % Risk Weight	**70,156,534**
100 % Risk Weight	**48,397,453**
> 100 % Risk Weight	**20,026,615**
Total	**138,580,602**

6. Disclosures for Credit Risk Mitigation on Standardised approach

Qualitative Disclosures

This is detailed in our policy on Credit Risk Mitigation techniques and Collateral Management.

Quantitative Disclosures

As of 31st March 2013, the Bank has not availed of Credit Mitigation techniques.

7. Disclosure on Securitisation for Standardised approach

Objective:

DBS Bank's primary objective of investment in securitisation transactions is to meet its Priority Sector Lending requirement.

Key Risks Involved

Credit Risk

- Rise in default rates in the underlying portfolios
- Adequacy of credit enhancement to cover default risk in the pool portfolio
- Deteriorating financial performance of the originator or default by originator

7. Disclosure on Securitisation for Standardised approach *(Continued)*

Prepayment Risk

- Rise in prepayment rates due to fall in rate of interest rates or rise in income levels of the borrowers.

Market Risk

- Fall in credit rating of the PTC issue will result in decline in the market value of the PTC security.
- Downgrade in rating of Servicer/Originator will result in decline in the market value of the PTC security.
- High utilisation of credit enhancements will result in decline in the market value of the PTC security

Liquidity Risk

- Drying up of liquidity in the PTC market will make it difficult for the bank to sell the investments in case of high credit, market or comingling risk. In such a situation, there would be a high cost involved, if we were to exit the position.

Comingling Risk

- The loan payments are paid directly by the obligors to the servicer at the end of each month. The servicer keeps the payments before the payout date of the PTC notes which exposes the monthly collections to comingling risk.
- There are also other risks which include performance risk of the collection and processing agent, and regulatory and legal risk.

Roles played by the Bank

As part of the securitsation programme, DBS Bank has played the role of an investor i.e. acquiring investment grade securitised debt instruments backed by financial assets originated by third parties.

Processes in place to monitor change in risks of securitisation exposures:

Credit Risk: The Bank monitors on an ongoing basis and in a timely manner, performance information on the exposures underlying its securitization positions and takes appropriate action, if required.

Market Risk: The Bank ascertains market value of the securitisation exposures based on extant norms, which is compared with their book value to assess the marked to market impact of these exposures. Further, a fall in rating of the credit enhancers resulting in a fall in market value of securities is mitigated by the incorporation of the various triggers in the transaction documents.

Bank's policy governing the use of credit risk mitigation to mitigate the risks retained through securitisation exposures

The Bank has not securitised any assets.

8. Disclosure on Market Risk in Trading book

Qualitative disclosures

Market Risk arises from changes in value from changes in interest rates yields, foreign exchange rates, equity prices, commodity prices, credit spreads and the impact of changes in the correlations and volatilities of these risk factors. The Banks market risk appetite is determined by the Group Board of Directors, with detailed limit frameworks recommended by the appropriate risk committees. The Group Market & Liquidity Risk Committee, which reports into the Group Risk Executive Committee, oversees the market risk management infrastructure, sets market risk control limits and provides enterprise-wide oversight of all market risks and their management.

The Group's market risk framework identifies the types of the market risk to be covered, the risk metrics and methodologies to be used to capture such risk and the standards governing the management of market risk within the Group including the limit setting and independent model validation, monitoring and valuation.

The principal market risk appetite measure is Value at Risk (VaR). The VaR is supplemented by risk control measures, such as sensitivities to risk factors, including their volatilities, as well as P&L loss triggers (Management Stress Triggers) for management action.

VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence. The VaR methodology uses a historical simulation approach to forecast the Group's market risk. The methodology is also used to compute average tail loss metrics. VaR risk factor scenarios are aligned to parameters and market data used for valuation. The VaR is calculated for T&M trading, T&M banking and ALCO book (T&M banking and ALCO book constitute banking VaR).

On a daily basis, the Bank computes trading VaR for each business unit and location, and at the Group level. Banking VaR is computed on a weekly basis for each business unit and location. The trading VaR forecasts are back-tested against the profit and loss of the trading book to monitor its predictive power.

To complement the VaR framework, regular stress testing is carried out to monitor the Banks vulnerability to shocks.

Quantitative Disclosures

Capital Requirement for Market Risk

Particulars	31 Mar 13
Interest rate risk	**4,316,335**
Foreign exchange risk (including gold)	**315,000**
Equity position risk	-
Unearned credit spreads	**577,919**

9. Operational Risk

Qualitative Disclosures

Overview

The Bank's Operational Risk Management (ORM) framework:

– Defines operational risk and the scope of its application;

– Establishes the dimensions of operational risk;

– Provides a consistent framework for managing operational risk across the Bank.

Operational Risk is defined as "the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events, including legal risk, but does not include strategic or reputational risk".

There are three dimensions of operational risk:

– Risk Cause

– Risk Event

– Risk Effect

The Core Operational Risk Standards ('CORS') is a set of minimum operating control standards that apply to all Business Units / Support Units (BU/SU) to manage Operational Risk consistently throughout the Bank. Business specific policies and procedures are required to be in line with these minimum control standards. The effective implementation of these standards in conjunction with corporate and business-specific policies provides the Bank with reasonable assurance that it is proactively managing its Operational Risk.

The CORS broadly cover guidelines for risks and control around:

– Management oversight

– People management

– Transaction initiation, execution and maintenance

– Financial & accounting control

– Legal, regulatory and market practice compliance

– Software, systems development and infrastructure management

– Information security

– Physical security

– Business continuity management

Risk Mitigation Programs

Internal Controls

The day-to-day management of Operational Risk within the Bank is through maintenance of a comprehensive system of internal controls. An effective internal control system is a combination of a strong control environment and appropriate internal control procedures. These internal controls comprise preventive, detective, escalation and corrective controls.

9. Operational Risk *(Continued)*

Global Insurance Programme (GIP)

The key objectives of the GIP are to:

– Reduce financial loss of risk events via transfer of loss to external funding sources (insurers)

– Prepare the Bank to qualify for any potential reduction in operational risk capital under Basel II.

The GIP provides cover for low-frequency high-impact loss incidents, while the high frequency low impact operational losses are managed through strong internal controls.

Business Continuity Management (BCM) is a key Operational Risk program to minimize the impact of a business disruption, irrespective of cause, and to provide an acceptable level of business until normal business operations are resumed. BCM includes the following:

– Establishing ownership, roles and responsibilities

– Risk analysis

– Business impact analysis

– Recovery strategies

– Familiarisation of emergency response and crisis management plans

– Regular review and maintenance

– Regular, complete and meaningful testing

Risk Tools and Mechanisms

Control Self Assessment (CSA): The CSA programme is for:

– Business Units and Support Units to self assess the effectiveness of their internal controls so as to provide reasonable assurance that business objectives can be met

– Promoting awareness of operational risk and control throughout the Bank

– Identifying issues requiring corrective action.

Risk Event Management (REM) and reporting helps to:

– Minimise the recurrence of past mistakes and risk exposures through proper implementation of mitigating measures / action plans;

– Build a centralised risk event database that is in line with Basel II requirements for purpose of progressing into a more sophisticated capital quantification approach for Operational Risk;

– Promote transparency, thereby ensuring timely resolution of risk events and implementation of mitigating measures.

9. Operational Risk *(Continued)*

Key Risk Indicators (KRI) tracking and reporting:

- Serves as a pre-warning signal of the changes in the level of risks and the effectiveness of controls across the Bank; and
- Prompts corrective action to be taken to prevent or reduce potential loss exposures through proper tracking and trend analysis of KRIs.

New Product Approval (NPA) is a review / approval process to ensure that:

- New business initiatives through product launches and changes to existing businesses through product variants are introduced in a controlled manner
- Risks inherent in the new proposals are properly addressed
- Appropriate due diligence is conducted prior to the commencement of new business.

Approach for operational risk capital assessment

- The Bank currently adopts the Basic Indicator Approach to calculate capital for operational risk.

10. Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures

The Asset and Liability Committee (“ALCO”) oversees the structural interest rate risk and funding liquidity risk in the Bank. The ALCO ensures that the exposures are within prudent levels. Structural interest rate risk arises from mismatches in the interest rate profile of customer loans and deposits. This interest rate risk has several aspects: basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality. To monitor the structural interest rate risk, the tools used by DBS include re-pricing gap reports based on traditional as well as duration gap approach, sensitivity analysis and income simulations under various scenarios.

Quantitative Disclosures

The Bank uses the Duration Gap approach to measure the impact of Market Value of Equity (MVE) for upward and downward rate shocks. This measures the potential change in MVE of the Bank for a 200 bps change in interest rates. The change in MVE due to a 200 change in interest rates are:-

Change in MVE due to a 200 bps change in interest rates	INR Million
31 March 2013	(1,078.79)

The impact on Earnings is computed as per the definition laid down in the ALM Policy of the Bank. Per the policy, Earnings-at-Risk (EaR) measures the interest rate risk from the earnings perspective. It is computed as an impact (over a 1-year horizon) of a 1% parallel shift in the yield curve on the Bank’s earning. This is computed using the net IRS gaps for each bucket up to 1 year and the mark-to-market impact of 1% rise in interest rates on the AFS and HFT portfolio is to this. The aggregate of these approximates the net revenue impact of a 1% parallel shift (increase in interest rates) in the yield curve over a 1 year horizon and acts as a useful tool in the hands of the ALCO to monitor and assess the impact of Interest rate risk exposure of the Bank on its revenue.

10. Interest rate risk in the banking book (IRRBB) *(Continued)*

EaR is computed at a Bank-wide level. It is not computed individually for the trading and banking books. Hence the impact on Earnings for the Banking book alone cannot be assessed. The EAR (trading and banking) is:

EaR on the INR book (trading and banking)	INR Million
31 March 2013	(1,624.67)