Standard Chartered

Risk review and disclosures under Basel II Framework for the year ended 31 March 2012

1. Background

The Standard Chartered Group (SCB Group or the Group) is an international banking and financial services group particularly focused on the markets of Asia, Africa and the Middle East. It has a network of over 1,500 branches and outlets in more than 70 countries and territories; and over 86,000 employees. The Group is regulated by its home regulator, viz. Financial Services Authority (FSA), in the United Kingdom (UK).

SCB India (SCBI or the Bank) is a branch of Standard Chartered Bank UK, which is part of the SCB Group. The ultimate parent company of the Bank is Standard Chartered PLC, which is listed on the London Stock Exchange and the Stock Exchanges of Hong Kong and India. Indian branch operations are conducted in accordance with the banking license granted by the Reserve Bank of India (RBI) under the Banking Regulation Act 1949.

2. Overview

The Basel Committee on Banking Supervision published a framework for International Convergence of Capital Measurement and Capital Standards (commonly referred to as Basel II), which replaced the original 1988 Basel I Accord. The RBI adopted the same in March 2008.

Basel II is structured around three “pillars” which are outlined below:

- Pillar 1 sets out minimum regulatory capital requirements – the minimum amount of regulatory capital banks must hold against the risks they assume;
- Pillar 2 sets out the key principles for supervisory review of a bank’s risk management framework and its capital adequacy. It sets out specific oversight responsibilities for the Board and senior management, thus reinforcing principles of internal control and other corporate governance practices; and
- Pillar 3, covered in this report, aims to bolster market discipline through enhanced disclosure by banks.

Basel II provides three approaches of increasing sophistication to the calculation of credit risk capital; the Standardised Approach (SA), the Foundation Internal Ratings Based Approach and the advanced Internal Ratings Based Approach (IRB). Basel II also introduced capital requirements for operational risk (OR) for the first time.

3. Scope of Basel II Framework

3.1. Pillar 1

The SCB Group and local management of the Indian operations recognise that Basel II is a driver for continuous improvement of risk management practices and believe that adoption of leading risk management practices are essential for achieving its strategic intent. Accordingly, the Group has adopted the IRB model for the measurement of credit risk covering 79% of the portfolio. The Group applies Value at Risk (VaR) model for market risk capital. The Group applies The Standardised Approach for determining its OR capital requirements. SCBI has adopted RBI’s prevailing Basel II regulations related to SA for credit and market risk and Basic Indicator Approach (BIA) for OR for computing local regulatory Pillar 1 capital.

In accordance with RBI guidelines, the Bank computes its capital under both Basel I and Basel II requirements. The minimum regulatory capital is the higher of Basel II and 80% of Basel I (prudential floor).

3.2. Pillar 2

Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available. This risk and capital assessment is commonly referred to as an Internal Capital Adequacy Assessment Process (ICAAP). The range of risks that need to be covered by the ICAAP is much broader than Pillar 1, which covers only credit risk, market risk and OR.

The Group has developed an ICAAP framework which closely integrates the risk and capital assessment processes and ensures that adequate levels of capital are maintained to support the current and projected demand for capital under expected and stressed conditions. The ICAAP framework has been designed to be applied consistently across the organisation to meet the Pillar 2 requirements of local regulators. As a branch of a foreign bank in India, the India ICAAP is largely based on the Group ICAAP framework, so as to maintain consistency in reporting of the risk and capital management aspects. However, wherever necessary, local customisation has been incorporated to align with the RBI requirements as well.

3.3. Pillar 3

Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk management practices. The Bank has implemented the requirements laid down by RBI for Pillar 3 disclosure, covering both the qualitative and quantitative items. These are also published in the Bank's annual report and hosted on the Bank's website.

The risk related disclosures and analysis provided herein below, are primarily in the context of the disclosures required under the RBI's Pillar 3 – Market Discipline of the New Capital Adequacy Framework (commonly referred to as NCAF) and are in respect of SCBI, except where required and specifically elaborated, to include other Group entities operating in India. The information provided has been reviewed by senior management and is in accordance with the guidelines prescribed by the RBI.

3.4. Accounting and Prudential Treatment / Consolidation Framework

The consolidation norms for accounting are determined by the prevailing Indian Generally Accepted Accounting Principles (GAAP) viz. AS 21 Consolidated Financial Statements and AS 27 Financial Reporting of Interests in Joint Ventures. The regulatory requirements are governed by circulars and guidelines of the RBI. The differences between consolidation for accounting purposes and regulatory purposes are mainly on account of following reasons:

1) Control over other entities to govern the financial and operating policies of the subsidiaries or joint ventures

   As per Indian GAAP, existence of control/joint control to govern the financial and operating policies of the subsidiary or joint venture is necessary for accounting consolidation. However, certain entities such as Non Banking Finance Companies (NBFC) have to be consolidated for regulatory capital adequacy purposes even where the above requirement is not fulfilled. Such cases are where the ability to control financial and operating policies of the entities legally vests with the Parent or Group entities and not with the India branch operations.

2) Nature of business of the entities to be consolidated

As per Indian GAAP, subsidiaries are not excluded from consolidation because of dissimilar nature of business activities between subsidiary and other entities within the Group. However, RBI regulations do not require consolidation of entities engaged in insurance business and businesses not pertaining to financial services.

3) Method of consolidation

The accounting consolidation methodology requires 'line by line' consolidation and elimination of all inter-group balances. However, for the purpose of regulatory consolidation under the capital adequacy framework, the risk weighted assets (RWA) and capital requirements for each entity can be computed separately by applying the Basel II norms as applicable for a bank and simply added together with that of the lead bank in the consolidated group. The Bank has adopted the latter approach for consolidation of entities for limited purpose of capital adequacy framework, as the accounting consolidation method is not appropriate considering the legal ownership pattern of the consolidated entities.

Details of the entities consolidated for regulatory purposes is summarised below:

Name of the entity	Status for regulatory purposes	Nature of business	Description of the entity	Type of consolidation
Standard Chartered Bank India Branches	Licensed bank in India	Banking and financial services	Branch operation of foreign bank viz. SCB, UK	Full
St. Helens Nominees India Pvt. Limited	Fully owned subsidiary of licensed bank	Nominee business - holding shares/debentures in limited companies on behalf of SCBI and its customers. Security trusteeship business for SCBI.	Private Limited Company incorporated under Indian Companies Act	Full
Standard Chartered Investments and Loans India Limited	Entity controlled by licensed bank's Parent/Group	Financial services acceptable for an NBFC, other than accepting public deposits, e.g. lending, investments, etc.	a) Private Limited Company incorporated under Indian Companies Act b) NBFC registered with RBI and categorised as non deposit taking systemically important NBFC	Full
Standard Chartered Securities (India) Limited	Entity controlled by licensed bank's Parent/Group	Category I merchant banker, rendering broking services to retail and institutional customers and depository services	Limited Company incorporated under Indian Companies Act	Full

Quantitative Disclosures

The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation, i.e., that are deducted and the name(s) of such subsidiaries.	NIL
The aggregate amounts (e.g., current book value) of the bank's total interests in insurance entities, which are risk-weighted, as well as, their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction.	NIL

4. Capital Management

4.1. Objectives

The Bank's approach to capital management is driven by its desire to maintain a strong capital base to support the development of its business and meet regulatory capital requirements at all times.

4.2. Approach

Strategic, business and capital plans are drawn up annually covering a five year horizon. The plans ensure that adequate levels of capital and an optimum mix are maintained by the Bank to support its strategy. This is integrated with the Bank's annual planning process which takes into consideration business growth assumptions across products and the related impact on capital resources.

The capital plan takes the following into account:

- Regulatory capital requirements;
- Demand for capital due to business growth, market stresses and potential risks; and
- Available supply of capital and capital raising options.

The Group uses internal models and other quantitative techniques in its internal risk and capital assessment at an overall Group level. The Bank also considers additional risk types other than those considered under Pillar 1 as part of its ICAAP. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined.

Stress testing and scenario/sensitivity analysis are used to assess the Bank's ability to sustain operations during periods of extreme but plausible events. They provide an insight into the potential impact of significant adverse events on the Bank's earnings, risk profile and capital position and how these could be mitigated.

The capital that the Bank is required to hold by the RBI is mainly determined by its balance sheet, off-balance sheet and market risk positions, after applying collateral and other risk mitigants.

4.3. Governance

The Group operates processes and controls to monitor and manage capital adequacy across the organisation. At a country level, capital is maintained on the basis of the local regulator's requirements. It is overseen by the country Asset and Liability Committee (ALCO), which is responsible for managing the country balance sheet, capital and liquidity, with the active support and guidance from Group ALCO (GALCO), Group Capital

Management Committee (GCMC) and Group Treasury (GT). The responsibility of capital management has been assigned to a dedicated sub-group of ALCO, the Capital Management Group (CMG), which meets at least once a month.

Suitable processes and controls are in place to monitor and manage capital adequacy and ensure compliance with local regulatory ratios in all legal entities. These processes are designed to ensure that each entity and the consolidated Bank has sufficient capital available to meet local regulatory capital requirements at all times.

4.4. Mobility of Capital Resources

The Bank operates as a branch in India, hence under current RBI regulations it cannot raise capital externally. The Group's policy in respect of profit repatriation requires that each local entity should remit its profits that are considered surplus to local regulatory minimum requirements. The amount to be remitted/injected and the mix/mode of capital (Tier 1 v/s Tier 2) is determined in conjunction with GT, after taking into account local capital adequacy regulations and other relevant factors.

4.5. Capital Structure

Tier 1 capital mainly comprises of:
i) Capital funds injected by Head Office (HO).
ii) Net profits of each year retained as per statutory norms (currently 25%).
iii) Remittable net profits retained in India for meeting minimum regulatory capital requirements.
iv) Capital reserves created out of profits on account of sale of immovable properties / held to maturity investments, as per RBI regulations.

These above are not repatriable/distributable to HO as long as the Bank operates in India. Also, no interest is payable on the same.

Tier 2 capital mainly comprises of:
i) 45% of reserve created on periodic revaluation of immovable properties in accordance with the Indian GAAP.
ii) General provisions on standard (performing) assets created as per RBI regulations.
iii) Reserve created out of unrealised gain on revaluation of investments as per RBI regulations.
iv) Subordinated debts from HO in foreign currency. These are unsecured, unguaranteed and subordinated to the claims of other creditors, including without limitation, customer deposits and deposits by banks. Refer note 18(E)(4)(ii) of the financial statements for details of outstanding subordinated debts.

As per RBI regulations, Tier 2 capital cannot exceed 100% of Tier 1, subordinated debts cannot exceed 50% of Tier 1 and general provisions qualifying as Tier 2 is restricted to 1.25% of RWA.

4.6. Capital and RWA

(Rs. in 000s)

	31.3.2012		
	Solo Bank*		Consolidated Basis*
	Basel II	Basel I	Basel II
Tier 1 Capital :	102,082,696	102,449,575	107,767,442
Head Office capital	6,757,992	6,757,992	6,757,992
Paid-up capital of subsidiaries / associates	-	-	5,075,257
Eligible reserves	110,843,234	110,843,234	112,089,270
Intangible assets	(13,562,380)	(13,562,380)	(14,197,315)
Unconsolidated subsidiaries / associates	(50)	(50)	(50)
Other regulatory adjustments	(1,956,100)	(1,589,221)	(1,957,712)
Tier 2 Capital :	35,626,405	35,993,285	35,637,302
Eligible revaluation reserves	4,790,992	4,790,992	4,790,992
General provision and other eligible reserves/provisions	6,432,392	6,432,392	6,444,900
Debt capital instruments eligible to be reckoned as capital funds and included in Lower Tier 2 (of which amount raised during the year Rs. Nil)	25,437,500	25,437,500	25,437,500
Less: Amortisation of qualifying subordinated debts	-	-	-
Other regulatory adjustments	(1,034,479)	(667,599)	(1,036,090)
Total Capital Base	**137,709,101**	**138,442,860**	**143,404,744**
Minimum Regulatory Capital Requirements			
Credit Risk	96,136,043	89,113,873	96,775,462
Standardised approach portfolios	76,007,125	-	76,646,544
Securitisation exposures	-	-	-
Counterparty Risk on FX and Derivatives	20,128,918	-	20,128,918
Market Risk - Standardised Duration Approach	6,275,521	8,182,983	6,278,859
Interest rate risk	5,887,134	7,794,597	5,887,134
Foreign exchange risk (including gold)	360,000	360,000	360,000
Equity Risk	28,387	28,386	31,725
Operational Risk – Basic Indicator Approach	9,705,684	-	9,894,048
Total Minimum Regulatory Capital Requirements	**112,117,248**	**97,296,856**	**112,948,369**
Risk Weighted Assets and Contingents :			
Credit Risk	1,068,178,257	990,154,145	1,075,282,901
Market Risk	69,728,012	90,922,038	69,765,101
Operational Risk – Basic Indicator Approach	107,840,933	-	109,933,855
Total Risk Weighted Assets and Contingents	**1,245,747,202**	**1,081,076,183**	**1,254,981,857**
Capital Ratios			
Tier 1 Capital	8.19%	9.48%	8.59%
Tier 2 Capital	2.86%	3.33%	2.84%
Total Capital	**11.05%**	**12.81%**	**11.43%**

Risk review and disclosures under Basel II Framework for the year ended 31 March 2012

(Rs. in 000s)

	31.3.2011		
	Solo Bank*		Consolidated Basis*
	Basel II	Basel I	Basel II
Tier 1 Capital :	94,875,451	95,112,272	100,008,735
Head Office capital	6,757,992	6,757,992	6,757,992
Paid-up capital of subsidiaries / associates	-	-	4,954,257
Eligible reserves	96,500,910	96,500,910	97,105,847
Intangible assets	(6,572,523)	(6,572,523)	(6,990,933)
Unconsolidated subsidiaries / associates	(50)	(50)	(50)
Other regulatory adjustments	(1,810,878)	(1,574,057)	(1,818,378)
Tier 2 Capital :	31,763,949	32,000,770	31,775,055
Eligible revaluation reserves	5,492,144	5,492,144	5,492,144
General provision and other eligible reserves/provisions	5,016,161	5,016,161	5,027,267
Debt capital instruments eligible to be reckoned as capital funds and included in Lower Tier 2 (of which amount raised during the year Rs. Nil)	22,297,500	22,297,500	22,297,500
Less: Amortisation of qualifying subordinated debts	-	-	-
Other regulatory adjustments	(1,041,856)	(805,035)	(1,041,856)
Total Capital Base	**126,639,400**	**127,113,042**	**131,783,790**
Minimum Regulatory Capital Requirements			
Credit Risk	84,099,895	75,296,788	84,676,496
Standardised approach portfolios	67,131,734	-	67,708,335
Securitisation exposures	8,742	-	8,742
Counterparty Risk on FX and Derivatives	16,959,419	-	16,959,419
Market Risk - Standardised Duration Approach	2,797,700	3,718,467	2,808,087
Interest rate risk	2,409,313	3,330,080	2,409,313
Foreign exchange risk (including gold)	360,000	360,000	360,000
Equity Risk	28,387	28,387	38,774
Operational Risk – Basic Indicator Approach	9,033,741	-	9,263,439
Total Minimum Regulatory Capital Requirements	**95,931,336**	**79,015,255**	**96,748,022**
Risk Weighted Assets and Contingents :			
Credit Risk	934,443,284	836,630,978	940,849,953
Market Risk	31,085,556	41,316,299	31,200,971
Operational Risk – Basic Indicator Approach	100,374,903	-	102,927,099
Total Risk Weighted Assets and Contingents	**1,065,903,743**	**877,947,277**	**1,074,978,023**
Capital Ratios			
Tier 1 Capital	8.90%	10.83%	9.30%
Tier 2 Capital	2.98%	3.65%	2.96%
Total Capital	**11.88%**	**14.48%**	**12.26%**

* Solo bank represents the main licensed bank of the Group in India and consolidated basis includes Group controlled entities operating in India and consolidated for the limited purpose of capital adequacy framework.

5. Risk Management

The management of risk lies at the heart of the Bank's business. One of the main risks incurred arises from extending credit to customers through trading and lending operations. Beyond credit risk, the Bank is also exposed to a range of other risk types such as market, liquidity, operational, pension, country cross border, reputational and other risks that are inherent to its strategy, product range and geographical coverage.

5.1. Risk Management Framework (RMF)

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Bank.

Through the RMF the Bank manages enterprise-wide risks, with the objective of maximising risk-adjusted returns, while remaining within its risk profile.

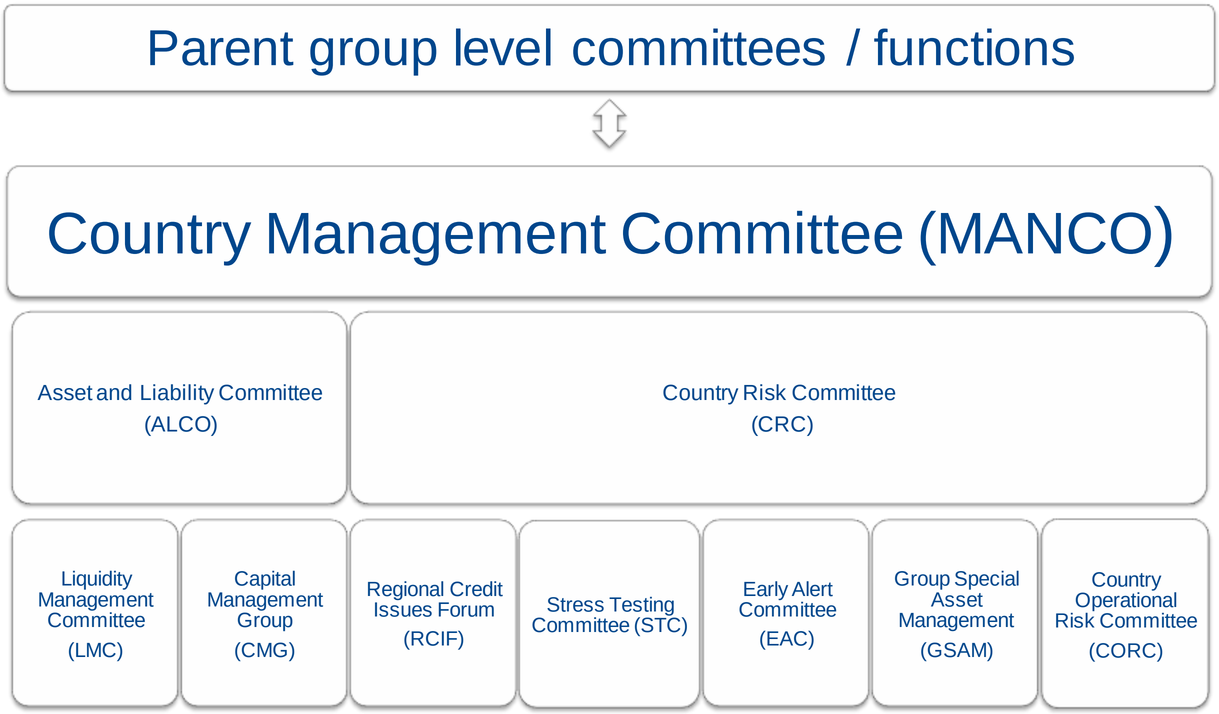
As part of this framework, the Bank uses a set of principles that describe the risk management culture it wishes to sustain:

- **Balancing risk and return:** risk is taken in support of the requirements of stakeholders, in line with the Bank's strategy and within its risk profile;
- **Responsibility:** it is the responsibility of all employees to ensure that risk-taking is disciplined and focused. The Bank takes account of its social responsibilities, and its commitment to customers in taking risk to produce a return;
- **Accountability:** risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk-taking must be transparent, controlled and reported;
- **Anticipation:** the Bank seeks to anticipate future risks and ensure awareness of all known risks;
- **Competitive advantage:** the Bank seeks to achieve competitive advantage through efficient and effective risk management and control.

The RMF establishes common principles and standards for the management of and control of all risks and to inform behaviour across the organisation. The core components of the RMF include risk classifications, risk principles and standards, definitions of roles and responsibilities and governance structure.

5.2. Risk Governance

The diagram below illustrates the high level risk committee structure.



The Bank's committee governance structure ensures that risk-taking authority and risk management policies are cascaded down from the MANCO to the appropriate functional, divisional and country-level committees. Information regarding material risk issues and compliance with policies and standards is communicated through the business and functional committees up to the Group-level committees, as appropriate.

Ultimate responsibility for implementing the risk appetite and effective management of risks of the Bank rests with the MANCO, headed by the Country Chief Executive Officer (CEO), with other members representing the functional heads of the businesses, control and support functions in India. It is responsible for the overall strategic direction of the Bank including management of its capital position, governance, including compliance with all local laws and regulations, internal policies, processes and standards mandated by the Group, and effective cooperation and coordination between the businesses. The MANCO comprises senior bankers who are well qualified, experienced and competent individuals and are well acknowledged in their respective fields.

The governance structure of the Bank also reflects the Group's functional structure, and therefore, the various functional heads and country committees have reporting lines to their Group functional heads and committees as well as to the Country CEO.

The following committees are the primary committees with oversight of risk and capital for the Bank on behalf of the MANCO:

- The ALCO, through its authority delegated by the MANCO, is responsible for the management of capital and liquidity ratios and the establishment of and compliance with policies relating to balance sheet management, including management of the Bank's liquidity, capital adequacy and structural foreign exchange and interest rate risk. ALCO is responsible for reviewing and approving the ICAAP stress test outcomes based on the stress testing scenario approved by MANCO. ALCO is chaired by the Country CEO. The ALCO's membership includes the business heads, Country Chief Risk Officer (CCRO), Chief Financial Officer (CFO), Head of Asset Liability Management (ALM) and Country Economist. ALCO meets monthly.

The LMC is a sub-group of the ALCO which manages liquidity in the Bank. It draws its members from Finance, ALM and the businesses. The CMG is a sub-group of the ALCO which manages capital. It is chaired by the CFO and draws its members from Finance, Risk and the businesses.

- The CRC is responsible for the management of all risks, except those for which ALCO has direct responsibility, and for implementing the RMF. The CRC ensures that risk identification and measurement are objective, and compliance with regulations and Group standards and risk control and risk origination decisions are properly informed. CRC is chaired by the CCRO and its membership includes the CEO, the business heads, the CFO, and the Compliance Head. CRC meets bi-monthly.

  The STC is a subcommittee of the CRC. The STC comprises members from the Finance and Risk functions and the Country Economist. It is responsible for reviewing and challenging the stress scenario used in the ICAAP. The STC is also responsible for reviewing the results of the ongoing stress testing and providing recommendations to CRC. The STC is chaired by the CCRO and meets on a quarterly basis.

  The CORC is a sub-committee of the CRC. It is responsible for providing assurance to the MANCO and the Group Risk Committee (GRC) that the RMF is operating effectively in the country and that key risks are being managed. The CORC meets monthly to review the Bank's significant risk exposures and to ensure appropriateness and adequacy of mitigating action plans. The CEO is the chairman of the CORC and its membership includes the CCRO, business heads and support functions heads. The Group OR Policy governs the management of OR. Locally, this policy is managed by the CORC, which exercises oversight of the Bank's OR exposures to ensure that it is managed in a manner consistent with the RMF and controlled in line with risk appetite.

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control (refer section 11 for further details).

5.3. The Risk Function

The CCRO manages the risk function which is independent of the businesses. The CCRO also chairs the CRC and is a member of the MANCO. The role of the Risk function is:

- To maintain the RMF, ensuring it remains appropriate to the Bank's activities and is effectively communicated and implemented across the Bank and for administering related governance and reporting processes.
- To uphold the integrity of the Bank's risk/return decisions, and in particular for ensuring that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and are controlled in accordance with its standards.
- To exercise direct risk control ownership for credit, market, country cross-border, short-term liquidity and operational risk types.

The Risk function is independent of the origination, trading and sales functions to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This is particularly important given that most revenues are recognised immediately while losses arising from risk positions only manifest themselves over time.

In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the wider organisation.

5.4. Risk Appetite

The Group/Bank manages its risks to build a sustainable franchise in the interests of all stakeholders. Risk appetite is an expression of the amount of risk the Group is willing to take in pursuit of its strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations arising from a range of different stress trading conditions. When setting the risk appetite, it considers overall risk management strategy/approach and appropriate margin between actual risk exposure and its risk capacity.

At a country level, a detailed risk appetite assessment is performed annually, where the country portfolio is assessed for how it contributes towards upholding the Group's risk appetite statement and to assess key issues and potential concerns around the country's business strategy and portfolio composition. The assessment of the country portfolio's contribution to the Group's risk appetite is performed through a 'bottom-up' analytical approach at a business/customer segment/product level.

The risk appetite forms the basis for establishing the risk parameters within which the businesses must operate, including policies, concentration limits and business mix. The GRC and GALCO are responsible for ensuring that the Group's risk profile is managed in compliance with the risk appetite set by the Board; MANCO, CRC and ALCO are responsible for the same at country level.

5.5. Stress Testing

Stress testing and scenario/sensitivity analysis are used to assess the financial and management capability of the Group/Bank to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental and social factors.

The Group's stress testing framework is designed to:

- Contribute to the setting and monitoring of risk appetite;
- Identify the key risks to strategy, financial position and reputation;
- Examine the nature and dynamics of the risk profile and assess the impact of stresses on profitability and business plans;
- Ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing;
- Inform senior management; and
- Ensure adherence to regulatory requirements.

A Group level STC, led by the Risk function with participation from the businesses, Group Finance, Global Research and GT, aims to ensure that the earnings and capital implications of specific stress scenarios are fully understood. The STC generates and considers pertinent and plausible scenarios that have the potential to adversely affect the Group/Bank's business.

The India STC leverages on work done by Group and, in addition, reviews scenarios specific to the local context, including for ICAAP. Stress tests/impact analysis done in India during 2011-12 included increased level of inflation, commodity price volatility assessment, fall in diamond prices, oil price increase, mortgage portfolio review, etc.

6. Credit Risk

Credit risk is the potential for loss due to the failure of counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit exposures may arise from both, the banking and trading books.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

6.1. Credit Policies

Group-wide credit policies and standards are considered and approved by the GRC, which also oversees the delegation of credit approval and loan impairment provisioning authorities. Policies and procedures specific to each business are established by authorised risk committees within Wholesale and Consumer Banking. These are consistent with the Group-wide credit policies, but are more detailed and adapted to reflect the different risk environments and portfolio characteristics. These Group policies/procedures are customised locally to incorporate any local regulatory and governance needs.

6.2. Credit Assessment Process

Wholesale Banking

Within the Wholesale Banking (WB) business a pre-sanction appraisal is carried out by the relationship manager through a Business Credit Application (BCA). BCA's are reviewed and duly approved by the relevant credit authority using an alphanumeric grading system for quantifying risks associated with counterparty. The grading is based on a probability of default measure, with customers analysed against a range of quantitative and qualitative measures. The numeric grades run from 1 to 14 and some of the grades are further sub-classified A, B or C. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1A to 12C are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers. The Bank's credit grades are not intended to replicate external credit grades, and ratings assigned by external ratings agencies are not used in determining the Bank's internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

Loss Given Default (LGD), in addition to Exposure at Default (EAD), is used in the assessment of individual exposures and portfolio analysis. LGD is the credit loss incurred if an obligor defaults. It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval. In accordance with the credit authority delegation, significant exposures are reviewed and approved centrally through a Group or regional/country level credit committee. All the credit facilities are subject to an annual credit review process.

The Bank's Credit Policy, including local/governance/regulatory needs, requires strict adherence to laid down credit procedures and deviations, if any, are approved and captured through the credit appraisal process. Sufficient checks are also undertaken at various levels, including Credit Risk Control, to ensure that deviations are justified and appropriately approved and would not result in any undue loss/risk to the Bank.

Consumer Banking

For Consumer Banking (CB), standard credit application forms are generally used, which are processed in central units using largely automated approval processes. Where appropriate to the customer, the product or the market, a manual approval process is in place. As with WB, origination and approval roles are segregated.

Sale of credit products is governed by the Direct Sales Representative Policy, which among other requirements, lays down policies governing recruitment, verification, training and monitoring of sales staff. Credit decisions are independent of the sales/marketing functions and there are clear and specific delegated authorities. Department level Key Control Standards and regular assurance reviews and audits ensure compliance to policy and delegated authorities.

Credit grades within CB are based on a probability of default calculated using IRB models. These models are based on application and behavioural scorecards which make use of external credit bureau information, as well as, the Bank's own data. In case of portfolios where such IRB models have not yet been developed, the probability of default is calculated using portfolio delinquency flow rates and expert judgement, where applicable. An alphanumeric grading system identical to that of the WB is used as an index of portfolio quality.

6.3. Credit Approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group Credit Committee (GCC). The GCC derives its authority from the GRC. All other credit approval authorities are delegated by the GRC to individuals based on their judgement and experience, and based on a risk-adjusted scale which takes account of the estimated maximum potential loss from a given customer or portfolio. Credit origination and approval roles are segregated in all but a very few authorised cases. In those very few exceptions where they are not, originators can only approve limited exposures within defined risk parameters.

6.4. Credit Monitoring

The Bank regularly monitors credit exposures, portfolio performance and external trends which may impact risk management outcomes. Internal risk management reports are presented to risk committees, containing information on key environmental, political and economic trends across major portfolios, portfolio delinquency and loan impairment performance.

In WB, clients or portfolios are placed on 'Early Alert' when they display signs of actual or potential weakness. For example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management. Such accounts and portfolios are subjected to a dedicated process overseen by the EAC. Client account plans and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of GSAM, the specialist recovery unit.

In CB, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and is considered for lending decisions. Accounts which are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by a specialist recovery team. The small and medium-sized enterprise business is managed within CB in two distinct customer sub-segments, small businesses and medium enterprises, differentiated by the annual turnover of the counterparty. The credit processes are further refined based on exposure at risk. Larger exposures are managed through the Discretionary Lending approach, in line with WB procedures, and smaller exposures are managed through Programmed Lending, in line with CB procedures.

The CRC is responsible for the effective management of credit risk, among other risks. CRC's primary responsibilities in this regard include:

- Monitoring of all material credit risk exposures and key external trends;

- Approving key credit risk-related policies;
- Ensuring adherence to exposure limits and other credit risk-related policies ;
- Reviewing trends in composition, quality and concentration/correlation of the Bank's portfolio;
- Ensuring business is operating within the risk appetite; and
- Directing appropriate courses of action if material credit risk issues emerge.

The Regional Credit Issues Forum, chaired by the Regional Credit Officer, meets monthly to assess the impact of external events and trends on the credit risk profile and to initiate appropriate measures to realign the portfolio and underwriting standards where necessary.

The EAC, which meets monthly, is responsible for identifying and monitoring corporate customers showing potential signs of weakness and/or may be exposed to higher risks. The EAC reviews the existing Early Alert portfolio and new accounts presented to the committee. It is chaired by the CEO and its membership also includes Head of Origination and Client Coverage, Head of Global Markets the Country Credit Officer, Senior Credit Officer-WB, the CCRO, Head GSAM and Head of Credit Documentation Unit.

6.5. Concentration Risk

Credit concentration risk can arise from pools of exposures with similar characteristics which may lead to highly correlated changes in credit quality, for example individual large exposures or significantly large groups of exposures whose likelihood of default is driven by common underlying factors.

Credit concentration risk is governed by the Group's Large Exposure Policy and MANCO also approved the Local Lending Policy (LLP); adherence to these policies is managed by the CRC. Effectively, these policies are managed via portfolio standards and within concentration caps set for counterparties or groups of connected counterparties, and for industry sectors, credit grade bands for WB; and by products in CB. Credit concentration risk is principally managed based on two components: single-name borrower exposure and industry concentrations.

For managing single-name concentrations, the Bank monitors compliance to the single and group borrower regulatory guidelines. The LLP establishes industry concentration limits. The CRC monitors adherence to these prescribed limits. Any excesses from the ceilings prescribed in the LLP are escalated to the CCRO or MANCO for approval in accordance with the escalation grid established in the LLP.

For CB, as part of the annual budget, the product mix of the portfolio and the secured/unsecured share is planned. The planned portfolio mix is monitored on a bi-monthly basis and reported to the CRC in country. In addition; quarterly reviews are conducted by the regional risk head.
Both WB and CB portfolios are reviewed periodically to ensure compliance with caps and risk appetite. In respect of industry/sectoral concentration caps, the CRC monitors adherence to approved limits based on a bi-monthly review of the Bank's portfolio.

6.6. Risk Reporting and Measurement

Risk measurement plays a central role, along with judgement and experience, in informing risk-taking and portfolio management decisions. It is a primary area for sustained investment and senior management attention.

Various risk measurement systems are available to risk officers to enable them to assess and manage the credit portfolio. As the Group has adopted IRB for credit risk under Basel II, these include systems to calculate Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) on a transaction, counterparty and portfolio basis. The Group has implemented a single risk reporting system to aggregate risk data. This is used to generate management information to assist business and Risk users with risk monitoring and management.

A number of internal risk management reports are produced on a regular basis, providing information on; individual counterparty, counterparty group, portfolio exposure, credit grade migration, the status of accounts or portfolios showing signs of weakness or financial deterioration, models performance and updates on credit markets. IRB portfolio metrics are widely used in these reports. Regular portfolio risk reports are made available at risk committee meetings.

6.7. Problem Credit Management and Provisioning

Credit monitoring is undertaken on a monthly basis. In addition, account conduct is also tracked on a monthly basis in terms of past dues, excesses, documentation, compliance with covenants and progress on exit accounts through the Account Subject To Additional Review Process (ASTAR). Potential problem credits are identified through the credit monitoring process and reported to the EAC for additional review. In addition, portfolio level review for both WB and CB is undertaken to track portfolio performance against local underwriting standards/Group policy. Outcomes of such reviews are placed before the CRC on a bi-monthly basis.

Wholesale Banking

Loans are classified as impaired and considered non-performing where analysis and review indicates that full payment of either interest or principal becomes questionable, or as soon as payment of interest or principal is 90 days or more overdue. Impaired accounts are managed by GSAM, which is independent of the main businesses.

Specific provisions are made in accordance with the Bank's internal policy, subject to minimum provisions required under the RBI guidelines. When all sources of recovery have been exhausted and no further source of recovery is apparent, then the debt is written off by applying the impairment provision held.

Consumer Banking

Within CB, an account is considered to be delinquent when payment is not received on the due date. For delinquency reporting purposes, the Bank follows international industry standards measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to a specific collections process. Loans are classified as impaired and considered non-performing where analysis and review indicates that full payment of either interest or principal becomes questionable, or as soon as payment of interest or principal is 90 days or more overdue.

The process used for raising provisions is dependent on the product category and adheres to the Bank's internal policy, subject to minimum provisions required under the RBI guidelines. In case of unsecured products, outstanding balances are written off at 150 days past due except discretionary lending. Unsecured products under discretionary lending are fully provided for at 90 days past due. In case of secured products like Mortgages, provision is raised after considering the realisable value of the collateral. For all products there are certain accounts, such as, cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

The Bank also maintains general provision as a percentage of performing standard advances (across both WB and CB) as prescribed by the RBI to cover the inherent risk of losses.

6.8. Quantitative Disclosures

a) Analysis of total gross credit risk exposures; fund based and non-fund based separately

(Rs. in 000s)

Nature & category of exposures	Credit risk exposures	
	31.03.2012	**31.03.2011**
Inter bank exposures	15,271,405	22,570,155
Investments (HTM)	-	-
Advances	583,960,332	502,173,557
Total gross fund based exposures	**599,231,737**	**524,743,712**
Specific provisions / Provisions for depreciation in the value of investment[1]	(28,253,496)	(9,408,988)
Total net fund based exposures	**570,978,241**	**515,334,724**
Fx and derivative contracts	570,181,922	484,006,712
Guarantees, acceptances, endorsements and other obligations	280,491,942	251,510,505
Other commitments and credit lines[2]	41,692,366	36,841,893
Total gross non-fund based exposures[3]	**892,366,230**	**772,359,110**
Specific provisions	(737)	(737)
Total net non fund based exposures	**892,365,493**	**772,358,373**

[1] Excluding provision on standard assets. (Previous Year: Excluding Floating provision and provision on standard assets).

[2] Excluding credit lines which are unconditionally cancellable at the Bank's sole discretion or, effectively provide for automatic cancellation of credit lines due to deterioration of borrower's creditworthiness.

[3] For non-fund based exposures, credit risk exposures or, equivalents are computed as under:

- In case of exposures other than Fx and derivative contracts, credit equivalent is arrived at by multiplying the underlying contract or notional principal amounts with the credit conversion factors prescribed by the RBI under the Basel II capital framework.
- In case of Fx and derivative contracts, credit equivalents are computed using the current exposure method which includes, two steps as under:
  - Computation of current credit exposure, which is sum of the positive MTM value of the outstanding contracts.
  - Potential future credit exposure, which is determined by multiplying the notional principal amounts by the relevant 'add-on' factor based on tenor and type of underlying contracts.

b) Analysis of geographic distribution of exposures; fund based and non-fund based separately

As all the exposures under Para 6.8.a) above are domestic, the analysis of geographic distribution of exposures into fund and non-fund based has not been disclosed separately.

c) Analysis of industry wise distribution of exposures; fund based and non-fund based separately

(Rs. in 000s)

Nature and category of industry	31.3.2012			31.3.2011		
	Credit Risk Exposures			Credit Risk Exposures		
	Fund based	Non fund based	Total	Fund based	Non fund based	Total
Coal	519,267	204,145	**723,412**	381,973	240,932	**622,905**
Mining	19,866,281	2,879,306	**22,745,587**	7,511,119	2,959,207	**10,470,326**
Iron & Steel	13,211,811	10,502,334	**23,714,145**	16,632,505	13,938,184	**30,570,689**
Other Metals & Metal Products	19,962,078	11,552,939	**31,515,017**	16,334,895	10,363,807	**26,698,702**
All Engineering	27,340,817	32,358,548	**59,699,365**	22,053,919	23,296,377	**45,350,296**
Of which:						
- Electronics	*6,905,773*	*12,271,638*	***19,177,411***	*7,267,782*	*10,326,975*	***17,594,757***
Cotton Textiles	202,625	-	**202,625**	521,069	-	**521,069**
Other Textiles	22,471,402	2,784,106	**25,255,508**	19,617,725	2,463,358	**22,081,083**
Sugar	3,856,899	2,036,272	**5,893,171**	3,089,349	2,047,799	**5,137,148**
Tea	170,605	162,497	**333,102**	70,112	80,967	**151,079**
Food Processing	10,981,859	1,851,212	**12,833,071**	10,439,031	734,294	**11,173,325**
Vegetables Oils (including Vanaspati)	1,756,549	4,456,065	**6,212,614**	2,393,845	6,571,801	**8,965,646**
Tobacco & Tobacco Products	5,920,477	395,073	**6,315,550**	4,256,530	425,321	**4,681,851**
Paper & Paper Products	5,024,113	1,281,300	**6,305,413**	4,723,795	1,056,006	**5,779,801**
Rubber & Rubber Products	3,750,664	1,795,241	**5,545,905**	3,531,445	2,751,497	**6,282,942**
Chemicals, Dyes, Paints etc.	30,798,208	15,123,370	**45,921,578**	27,328,194	14,304,817	**41,633,011**
Of which:						
- Fertiliser	*771,563*	*605,004*	***1,376,567***	*577,618*	*2,193,602*	***2,771,220***
- Petro-chemicals	*6,329,059*	*3,920,496*	***10,249,555***	*6,087,610*	*3,350,744*	***9,438,354***
- Drugs & Pharmaceuticals	*15,867,843*	*2,136,540*	***18,004,383***	*12,931,961*	*1,790,118*	***14,722,079***
Cements	1,969,869	1,399,820	**3,369,689**	2,388,575	781,234	**3,169,809**
Leather & Leather Products.	1,046,462	103,705	**1,150,167**	1,201,724	140,066	**1,341,790**
Gems & Jewellery	6,871,363	4,416,931	**11,288,294**	6,785,659	4,192,962	**10,978,621**
Constructions	12,527,397	11,773,637	**24,301,034**	11,174,259	11,031,457	**22,205,716**
Petroleum	603,692	13,107,004	**13,710,696**	821,972	11,780,310	**12,602,282**
Automobiles including trucks	13,203,721	8,563,014	**21,766,735**	10,669,282	6,940,566	**17,609,848**
Computer software	9,276,524	11,532,219	**20,808,743**	8,040,251	8,717,049	**16,757,300**
Infrastructure	55,492,130	28,743,064	**84,235,194**	33,081,102	26,682,961	**59,764,063**
Of which:						
- Power	*1,678,028*	*4,629,905*	***6,307,933***	*1,471,785*	*2,256,018*	***3,727,803***
- Telecommunications	*34,453,595*	*11,509,085*	***45,962,680***	*23,424,971*	*12,061,846*	***35,486,817***
- Roads & Ports	*7,828,075*	*5,694,504*	***13,522,579***	*5,347,280*	*8,113,535*	***13,460,815***
NBFC and Trading	66,435,889	13,854,382	**80,290,271**	62,767,720	15,501,533	**78,269,253**
Mortgages	76,404,850	-	**76,404,850**	70,768,607	-	**70,768,607**
Real Estate	52,032,218	2,756,976	**54,789,194**	50,142,905	3,812,431	**53,955,336**
Other Retail Advances	51,588,927	1,328,508	**52,917,435**	51,757,017	1,328,508	**53,085,525**
Others	70,673,635	95,530,274	**166,203,909**	53,688,978	79,367,061	**133,056,039**
Total Gross Advances	**583,960,332**	**280,491,942**	**864,452,274**	**502,173,557**	**251,510,505**	**753,684,062**
Specific provisions	(28,253,496)	(737)	(28,254,233)	(9,408,988)	(737)	(9,409,725)
Total Net Advances	**555,706,836**	**280,491,205**	**836,198,041**	**492,764,569**	**251,509,768**	**744,274,337**
Total Inter-bank exposures	15,271,405	-	15,271,405	22,570,156	-	22,570,156
Total Investments (HTM)	-	-	-	-	-	-

Fund based exposure comprises loans and advances, inter-bank exposures and HTM Investments. Non-fund based exposure comprises guarantees, acceptances, endorsements and letters of credit.

d) Analysis of residual contractual maturity of assets

As at 31 March 2012 (Rs. in 000s)

	Cash and Bank balances with RBI	Balances with Banks and money at call and short notice	Investments	Advances	Fixed Assets	Other Assets
1day (d)	5,781,206	8,602,555	67,635,432	17,370,417	-	16,634,609
2d-7d	1,421,243	4,894,050	11,546,171	37,761,586	-	969,253
8d - 14d	1,086,978	55,000	6,053,338	42,183,857	-	1,499,440
15d - 28d	2,359,677	242,500	13,140,947	24,717,975	-	3,510,537
29d - 3month(m)	7,261,062	1,477,300	40,630,828	115,256,562	-	84,306,964
3m - 6m	2,768,041	-	15,994,785	65,184,922	-	58,131,516
6m - 1year (y)	3,129,427	-	39,333,845	37,451,249	-	36,977,595
1y - 3y	7,960,167	-	47,227,280	80,507,701	-	62,721,164
3y - 5y	57,051	-	21,833,114	30,326,616	-	33,869,341
> 5y	1,528,464	-	7,407,269	104,939,203	25,269,569	15,401,473
Total	**33,353,316**	**15,271,405**	**270,803,009**	**555,700,088**	**25,269,569**	**314,021,892**

As at 31 March 2011 (Rs. in 000s)

	Cash and Bank balances with RBI	Balances with Banks and money at call and short notice	Investments	Advances	Fixed Assets	Other Assets
1day (d)	11,196,487	15,438,555	63,048,254	9,513,947	-	13,883,709
2d-7d	1,578,458	5,088,100	6,313,833	31,785,610	-	1,017,612
8d - 14d	1,738,225	487,000	6,952,901	36,680,739	-	898,033
15d - 28d	2,605,837	519,000	10,423,349	33,648,598	-	3,324,509
29d - 3month(m)	7,957,269	1,037,500	31,829,078	88,063,409	-	50,507,012
3m - 6m	4,165,173	-	21,454,680	52,118,760	-	22,529,451
6m - 1year (y)	3,800,444	-	32,937,560	47,842,655	-	25,803,358
1y - 3y	10,436,922	-	45,032,078	74,296,195	-	63,667,044
3y - 5y	59,678	-	5,627,396	19,693,642	-	52,534,943
> 5y	1,923,619	-	5,057,385	98,364,373	25,932,846	12,069,466
Total	**45,462,112**	**22,570,155**	**228,676,514**	**492,007,928**	**25,932,846**	**246,235,137**

The above has been prepared on similar guidelines as used for the statement of structural liquidity.

e) Details of Non-Performing Assets (NPAs) - Gross and Net

(Rs. in 000s)

Particulars	**31.03.2012**	**31.03.2011**
Sub Standard	8,331,132	4,320,945
Doubtful	6,417,573	5,316,344
- Doubtful 1	*2,871,767*	*4,160,490*
- Doubtful 2	*3,091,449*	*855,777*
- Doubtful 3	*454,357*	*300,077*
Loss	17,372,857	1,840,595
Gross NPAs	32,121,562	11,477,884
Provisions	(28,253,496)	(10,158,988)
Net NPAs	3,868,066	1,318,896
Cover ratio	**87.96%**	**88.51%**

f) NPA Ratios

	31.03.2012	**31.03.2011**
Gross NPAs to gross advances	5.50%	2.29%
Net NPAs to net advances	0.70%	0.27%

g) Movement of NPAs

(Rs. in 000s)

	31.3.2012		**31.3.2011**	
Particulars	**Gross**	**Net**	**Gross**	**Net**
Balance, beginning of the year	11,477,884	1,318,896	10,955,995	5,804,875
Additions during the year	26,076,669	2,963,735	9,855,055	1,854,761
Reductions during the year	(5,432,991)	(414,565)	(9,333,166)	(6,340,740)
Balance, end of the year	32,121,562	3,868,066	11,477,884	1,318,896

h) Movement of provisions for NPAs

(Rs. in 000s)

	31.03.2012	**31.03.2011**
Balance, beginning of the year	10,158,988	5,151,120
Add: Provisions during the year	23,112,934	11,753,012
Less: Utilisation / writeback of provisions no longer required	(5,018,426)	(6,745,144)
Balance, end of the year	28,253,496	10,158,988

i) Amount of non-performing Investments and amount of provisions held for non-performing investments

(Rs. in 000s)

	31.03.2012	31.03.2011
Balance, beginning of the year	45,092	44,821
Additions during the year	-	271
Reductions during the year	-	-
Balance, end of the year	45,092	45,092
Total provisions held at the end of the year	**45,092**	**45,092**

j) Movement of provisions for depreciation on investments

(Rs. in 000s)

	31.03.2012	31.03.2011
Balance, beginning of the year	2,800,307	3,726,698
Add: Provisions during the year	573	271
Less: Utilisation / writeback of provisions no longer required	(1,532,771)	(926,662)
Balance, end of the year	**1,268,109**	**2,800,307**

6.9. Credit Risk: Disclosures for portfolios subject to the standardised approach

As per the provisions of the Basel II framework in India, all banks have to mandatorily adopt a SA for measurement of credit risk. The risk weights applied under the SA are prescribed by the RBI and are based on the asset class to which the exposure is assigned. This approach permits use of external ratings for credit exposures to counterparties in the category of sovereigns, international banks, corporate and securitisation exposures. The specified credit rating agencies used for these types of exposures are as under:

Domestic Credit Rating Agencies	International Credit Rating Agencies
Credit Rating Information Services of India Limited	Standard and Poors
ICRA Limited	Moody's
Fitch Limited	
Credit Analysis and Research Limited	

The process used to transfer public issue ratings onto comparable assets in the banking book is in accordance with the requirements laid down by RBI. Rated facilities have been considered as those facilities where the Bank's exposure has been explicitly considered; else, the exposure has been treated by the Bank as unrated.

Analysis of outstanding credit exposures (after considering credit mitigation) and credit risk by regulatory risk weight

As at 31 March 2012 (Rs. in 000s)

Nature & category of exposures	Total gross credit exposure	Credit risk mitigation	Net exposure (before provision)	Credit risk weight buckets summary < 100%	100%	> 100%	Deduction from capital
Inter bank exposures	15,271,405	-	15,271,405	15,271,405	-	-	-
Investments (HTM)	0	-	0	-	-	-	-
Advances	583,960,332	(8,798,497)	575,161,835	101,526,307	407,223,244	66,412,284	-
Total fund based exposures	**599,231,737**	**(8,798,497)**	**590,433,240**	**116,797,712**	**407,223,244**	**66,412,284**	**-**
Fx and derivative contracts	570,181,922	-	570,181,922	462,708,718	106,853,499	619,705	-
Guarantees,Acceptances, endorsements and other obligations	280,491,942	(3,816,576)	276,675,366	97,434,092	171,835,151	6,077,615	1,328,508
Undrawn Commitments and others	41,692,366	-	41,692,366	3,275,754	37,675,042	1,223	740,347
Total non fund based exposures	**892,366,230**	**(3,816,576)**	**888,549,654**	**563,418,564**	**316,363,692**	**6,698,543**	**2,068,855**

As at 31 March 2011 (Rs. in 000s)

Nature and category of exposures	Total Gross Credit Exposure	Credit Risk Mitigation	Net Exposure (before provision)	Credit risk weight buckets summary < 100%	100%	> 100%	Deduction from capital
Inter-bank exposures	22,570,155	-	22,570,155	22,570,155	-	-	-
Investments (HTM)	-	-	-	-	-	-	-
Advances	502,173,557	(2,955,281)	499,218,276	101,409,762	349,890,425	47,918,089	-
Total fund based exposures	**524,743,712**	**(2,955,281)**	**521,788,431**	**123,979,917**	**349,890,425**	**47,918,089**	**-**
Fx and derivative contracts	484,006,712	-	484,006,712	393,713,710	90,209,392	83,610	-
Guarantees, acceptances, endorsements and other obligations	251,510,505	(984,693)	250,525,812	72,402,316	173,896,570	2,898,418	1,328,508
Undrawn commitments and others	36,841,893	-	36,841,893	1,960,000	34,142,258	12,088	727,547
Total non-fund based exposures	**772,359,110**	**(984,693)**	**771,374,417**	**468,076,026**	**298,248,220**	**2,994,116**	**2,056,055**

6.10. Credit risk mitigation: Disclosures for standardised approaches

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Risk mitigation policies determine the eligibility of collateral types. Collateral types for credit risk mitigation include cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees and letters of credit.

The above collateral types are applicable to all customer segments, including, corporates and financial institutions, though exposures to banks are generally non-collateralised. There are well laid down policies and processes for valuation/revaluation of collaterals, covering source of valuation, independent professional valuations, hair-cuts/margins on collateral market values, re-margining requirements and re-assessment of credit limits. However, from a local regulatory perspective, the main “eligible” collaterals under the SA are restricted to cash (including fixed deposits) and units of mutual funds. These are mainly collateral against retail loans.

Collateral is valued in accordance with the Bank’s risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired loans is maintained at fair value, which is revalued at least annually as prescribed in risk mitigation policy and procedures. In case of stock and book debts, monthly statements are obtained from the clients. In case of marketable securities listed on recognised exchanges, the valuation frequency is daily.

Guarantees taken can be categorised as follows:

- Guarantee from a bank (including central banks), or surety bond which is repayable on demand.
- Guarantee from a related corporate (including government owned commercial enterprises).
- Guarantee from an unconnected corporate.
- Guarantee from a government department, or an entity classified as government risk (excluding those classified as banks or commercial enterprises).
- Guarantee or indemnity from a SCB Group entity (subsidiary/associate or branch).
- Guarantee from one or more individuals.

(Rs. in 000s)

	31.3.2012	**31.3.2011**
Exposure covered by eligible financial collateral after application of haircuts	30,199,352	7,970,553
Exposure covered by guarantees	9,067,203	1,628,466

6.11. Securitisation: Disclosure for standardised approach

Securitisation transactions are generally undertaken with the objective of credit risk transfer, liquidity management, meeting regulatory requirements, such as, capital adequacy, priority sector lending and asset portfolio management. The Bank participates in securitisations in the role of originator, as well as, investor. In general, it provides credit enhancement services (as originator or as a third party), liquidity facilities, interest rate derivative products and acts as a service provider.

The key risks inherent in securitisation transactions include:

- Credit risk/market risk: risk arising on account of payment delinquencies from underlying obligors/borrowers in the assigned pool.
- Liquidity risk: risk arising on account of lack of secondary market to provide ready exit options to the investors/participants.
- Interest rate/currency risk: mark to market risks arising on account of interest rate/currency fluctuations.
- Prepayment risk: prepayments in the securitised pool results in early amortisation and loss of future interest to the investor on the prepaid amount.
- Co-mingling risk: risk arising on account of co-mingling of funds belonging to investor(s) with that of the originator and/or collection and processing servicer, when there exists a time lag between collecting amounts due from the obligors and payment made to the investors.

Monitoring credit risk

The Bank in the capacity of collection and processing agent prepares monthly performance reports which are circulated to investors/assignees/rating agencies. The securitised pools are continuously monitored and those requiring attention are subjected to specific interventions (e.g. focused collection efforts in affected geographies etc.) to improve their performance.

The risk assessment of the pools is done continuously by the rating agencies based on amortisation level, collection efficiency, credit enhancement utilisation levels and credit cover available for balance deal tenor.

The Bank has not used credit risk mitigants to mitigate retained risks.

The Bank provides credit enhancements in the form of cash deposits or guarantees in its securitisation transactions and also provides credit enhancement as a third party. The Bank makes appropriate provisions for any delinquency losses assessed at the time of sale as well as over the life of the securitisation transactions in accordance with the RBI guidelines.

Valuation

Pass Through Certificates (PTC) purchased have been marked to market on the basis of the Base Yield Curve and the applicable spreads as per the spread matrix relative to the Weighted Average Maturity of the paper as notified by Fixed Income Money Market and Derivative Association of India (FIMMDA).

Summary of the Bank's accounting policies for securitisation activities

Refer note 18(D)(3) of the financial statements.

Regulatory capital approach

As per the provisions of the Basel II framework, all banks have to mandatorily adopt SA for capital treatment of securitisation transactions. This approach requires use of external rating agencies for risk weighting securitisation exposures. The credit rating agencies used by the Bank for these types of exposures are those recognised by the RBI (refer section 6.9 above).

Quantitative Disclosures

6.11.1. Banking Book

a) The outstanding exposures securitised by the Bank as on 31 March 2012: Rs. 3,625,171 (Previous Year: Rs. 4,971,141).

b) Securitisation losses recognised by the Bank during 2011-12

(Rs. in 000s)

Exposure Type	Underlying Security Outstanding	Losses
Corporate Loans	-	-

Year 2010-11 (Rs. in 000s)

Exposure Type	Underlying Security Outstanding	Losses
Personal Loans (sale without recourse)	246,690	541

c) Assets intended to be securitised within a year – NIL (Previous Year: NIL).

The securitisation transactions are undertaken on a need basis to meet the objectives as disclosed above.

d) The total amount of exposures securitised with unrecognised gain / (loss)

As at 31 March 2012 (Rs. in 000s)

Exposure Type	Outstanding	Unrecognised gain /(loss)
Housing Loans	3,534,271	60,045
Corporate Loans	90,900	45

As at 31 March 2011 (Rs. in 000s)

Exposure Type	Outstanding	Unrecognised gain /(loss)
Housing Loans	4,724,451	77,513
Corporate Loans	246,690	289

e) Securitisation exposures retained or purchased

As at 31 March 2012 (Rs. in 000s)

Exposure Type	On Balance Sheet	Off Balance Sheet
Housing Loans	755,104	1,328,508
Vehicle Loans	-	-
	755,104	**1,328,508**

As at 31 March 2011 (Rs. in 000s)

Exposure Type	On Balance Sheet	Off Balance Sheet
Housing Loans	755,104	1,328,508
Vehicle Loans		194,277
Total	**755,104**	**1,522,785**

f) Aggregate amount of securitisation exposures retained or purchased and the associated capital charges

As at 31 March 2012 (Rs. in 000s)

Exposure Type	<100% risk weight	100% risk weight	>100% risk weight	Total
Vehicle Loans	-	-	-	-
Capital Charge	-	-	-	-

As at 31 March 2011 (Rs. in 000s)

Exposure Type	<100% risk weight	100% risk weight	>100% risk weight	Total
Vehicle Loans	194,277	-	-	194,277
Capital Charge	8,742	-	-	8,742

g) Securitisation exposures deducted from capital

As at 31 March 2012 (Rs. in 000s)

Exposure Type	Exposures deducted entirely from Tier-1 capital	Credit enhancing I/Os deducted from total capital	Other exposures deducted from total capital
Housing Loans	-	-	2,083,612

As at 31 March 2011 (Rs. in 000s)

Exposure Type	Exposures deducted entirely from Tier-1 capital	Credit enhancing I/Os deducted from total capital	Other exposures deducted from total capital
Housing Loans	-	-	2,083,612

6.11.2. Trading Book

a) There are no outstanding exposures securitised for which the Bank has retained any exposure which is subject to Market Risk.

b) Securitisation exposures retained or purchased – On Balance Sheet and Off Balance Sheet.

As at 31 March 2012 (Rs. in 000s)

Exposure Type	On Balance Sheet	Off Balance Sheet
Vehicle Loans	20,103,014	-
SME Loans	5,436,505	-
Total	25,539,519	-

As at 31 March 2011 (Rs. in 000s)

Exposure Type	On Balance Sheet	Off Balance Sheet
Vehicle Loans	11,637,669	-

c) Securitisation exposures retained or purchased

As at 31 March 2012 (Rs. in 000s)

	Total
Exposures subject to Comprehensive Risk Measure for specific risk	25,539,519

	<100% risk weight	100% risk weight	>100% risk weight	Total
Exposures subject to the securitisation framework for specific risk	25,539,519	-	-	25,539,519

As at 31 March 2011 (Rs. in 000s)

	Total
Exposures subject to Comprehensive Risk Measure for specific risk	11,637,669

	<100% risk weight	100% risk weight	>100% risk weight	Total
Exposures subject to the securitisation framework for specific risk	11,637,669	-	-	11,637,669

d) Aggregate amount of the capital requirements for the securitisation exposures

As at 31 March 2012 (Rs. in 000s)

Risk Weight Bands	Capital Requirement
<100% risk weight	459,082
100% risk weight	-
>100% risk weight	-
Total	**459,082**

As at 31 March 2011 (Rs. in 000s)

Risk Weight Bands	Capital Requirement
<100% risk weight	208,178
100% risk weight	-
>100% risk weight	-
Total	**208,178**

e) Securitisation exposures deducted from capital

As at 31 March 2012 (Rs. in 000s)

Exposure Type	Exposures deducted entirely from Tier-1 capital	Credit enhancing I/Os deducted from total capital	Other exposures deducted from total capital
	-	-	-

As at 31 March 2011 (Rs. in 000s)

Exposure Type	Exposures deducted entirely from Tier-1 capital	Credit enhancing I/Os deducted from total capital	Other exposures deducted from total capital
	-	-	-

7. Market Risk

The Bank recognises market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Bank is exposed to market risk arising principally from customer-driven transactions. The objective of the Bank's market risk policies and processes is to obtain the best balance of risk and return while meeting customers' requirements.

The primary categories of market risk for the Group/Bank are interest rate risk, currency exchange rate risk, commodity price risk and equity price risk.

7.1. Market Risk Governance

The GRC approves the Group's market risk appetite taking account of market volatility, the range of products and asset classes, business volumes and transaction sizes. The Group Market Risk Committee (GMRC), under authority delegated by the GRC, is responsible for setting VaR and stress loss triggers for market risk within the Group's risk appetite. The GMRC is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books. At a country level, there is an independent market risk function to implement Group market risk policies/limits and to monitor the market risk exposures in accordance with both Group and local governance/regulatory norms.

Group Market Risk (GMR) approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and position concentrations, where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a one basis point increase in yields, whereas, foreign exchange, commodity and equity sensitivities are measured in terms of the underlying values or amounts involved. Option risks are controlled through revaluation limits on underlying price and volatility shifts, limits on volatility risk and other variables that determine the options' value.

The CRC, in conjunction with GMR, provides market risk oversight, reporting and management of the market risk profile.

Value at Risk

The Bank measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome. VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

Back Testing

To assess their predictive power, VaR models are back tested against actual results. Back testing is conducted daily against clean profit and loss, which is the actual profit and loss for a given business day, adjusted to remove the effect of certain items unrelated to market risk.

Stress Testing

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. GMR complements the VaR measurement by regularly stress testing market risk exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both, historical market events and forward looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs. Stress scenarios are regularly updated to reflect changes in risk profile and economic events.

Regular stress test scenarios are applied to interest rates, credit spreads, exchange rates and equity prices thereby covering asset classes in the Financial Markets (FM) non-trading and trading books. Ad hoc scenarios are also prepared, reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

7.2. Foreign Exchange Exposure

The foreign exchange exposures comprise trading and non-trading foreign currency translation exposures. Foreign exchange trading exposures are principally derived from customer driven transactions.

7.3. Interest Rate Exposure

The interest rate exposures arise from trading and non-trading activities. Structural interest rate risk arises from the differing re-pricing characteristics of commercial banking assets and liabilities.

7.4. Derivatives

Refer note 18(E)(4)(xxii)(b) of the financial statements for qualitative disclosures related to derivatives.

For quantitative details, refer "Minimum Regulatory Capital Requirements" under para 4.6 of this disclosure.

8. Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk from across the non-trading book portfolios is transferred to FM where it is managed by the local ALM desk under the supervision of ALCO. The ALM desk deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits. VaR and stress tests are applied to non-trading book exposures in the same way as for the trading book. Impact on earnings for upward/downward rate shock of 200 basis points test is done every quarter end.

Impact on earnings for upward/downward rate shock of 200 basis points, broken down by currency, is as follows:

As at 31 March 2012 (Rs. in 000s)

Currency	If interest rates were to go up by 200 basis points	If interest rates were to go down by 200 basis points
INR	1,889,137	(1,889,137)
USD	254,567	(254,567)
EUR	(57,536)	57,536
GBP	(104,531)	104,531
JPY	(12,000)	12,000
Total	**1,969,637**	**(1,969,637)**

As at 31 March 2011 (Rs. in 000s)

Currency	If interest rates were to go up by 200 basis points	If interest rates were to go down by 200 basis points
INR	564,412	(564,412)
USD	628,621	(628,621)
EUR	(14,866)	14,866
GBP	(67,615)	67,615
JPY	(11,844)	11,844
Total	**1,098,708**	**(1,098,708)**

9. Operational Risk

OR is defined as the potential for loss arising from the failure of people, process or technology or the impact of external events. The Bank's exposure to OR arises as a consequence of its business activities. It is the Bank's objective to minimise exposure to OR, subject to cost trade-offs.

The Group Operational Risk Committee (GORC) oversees the management of OR across the Group, supported by business, functional and country-level committees. All OR committees operate on the basis of a defined structure of delegated authorities and terms of reference, derived from the GRC.

OR exposures are managed through consistent policies and procedures that drive risk identification, assessment, control and monitoring. These policies and procedures are challenged and revised regularly to ensure their ongoing effectiveness. Responsibility for the management of OR rests with business and function management as an integral component of their first line risk management responsibilities. Group OR is responsible for setting and maintaining standards for OR management and measurement. In addition, specialist operational Risk Control Owners (RCOs) have responsibility for the management of OR arising from the following activities Group-wide: legal processes, people management, technology management, vendor management, property management, security management, accounting and financial control, tax management, corporate authorities and structure and regulatory compliance. Each RCO is responsible for identifying risks that are material to the Group and for maintaining an effective control environment, which includes defining appropriate policies and procedures for approval by authorised risk committees.

Identified OR exposures are classified as 'Low', 'Medium', 'High' or 'Very High', in accordance with standard risk assessment criteria. Risks which are outside of set materiality thresholds receive a differential level of management attention and are reported to senior management and risk committees up to Board/MANCO level.

The Bank uses the Basic Indicator Approach consistent with the RBI's capital adequacy requirements to assess its regulatory capital requirements for operational risk. Under the Basic Indicator Approach, a pre-determined beta co-efficient is applied to the average income for the previous three years, to determine the operational risk capital requirement.

10. OTHER KEY RISKS

10.1. Liquidity Risk

Liquidity risk is the potential that the Bank either does not have sufficient liquid financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at excessive cost.

The Liquidity Risk Framework governs liquidity risk and is managed by ALCO. In accordance with the framework, the Bank maintains a liquid portfolio of marketable securities as reserve assets. The level of the Bank's aggregate liquid reserves is in accordance with local regulatory minimum liquidity requirements.

10.2. Reputational Risk

Reputational risk is the potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions. It is Group/Bank policy that it will protect its reputation and not undertake any activities that may cause material damage to its franchise.

The Reputational Risk Policy governs reputational risk and is managed by the MANCO through its sub-committees – CRC and CORC, which has the responsibility to ensure that the Bank does not undertake any activities that may cause material damage to the Group's franchise.

Reputational risk is recorded and reviewed by the Country Head of Corporate Affairs, and key issues are flagged to the CRC and relevant Business heads. Reputational risk is reported to the CEO through the CRC. Whilst the CRC covers all forms of risk in country, key reputational risk is also discussed and escalated to Group Communications Management team. Corporate Affairs representatives sit on CORC and CRC. Monthly reporting from Corporate Affairs to Group Communications Management team is in place to ensure that significant risks are duly escalated. A fast track reporting process outside the normal reporting process is in place to respond to ad hoc issues or events which pose potential reputational risk to the Bank. The process involves alerting the appropriate level of the Bank and the Group promptly to give as much time as possible for steps to be taken to limit damage to its reputation.

11. MONITORING

Monitoring of risk management is achieved through independent reviews by Risk Control Owners, Group Internal Audit (GIA), Compliance & Monitoring, concurrent audits and spot checks by the external specialists as required under regulations. The role of GIA is defined and overseen by the Board Audit Committee.

To ensure the effectiveness of risk management processes in maintaining the risk profile of the Bank within risk appetite, the Bank maintains three 'lines of defence'. Each 'line of defence' describes a specific set of responsibilities for risk management and control. Under this framework, there are three lines of defence.

- The First Line of Defence is that all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities, which includes material risks are identified, assessed, mitigated, monitored and reported; compliance with internal policies, procedures, limits, other risk control requirements and external laws/regulations are implemented and complied with; identify activities that should be a focus for independent control monitoring; propose control enhancements to ensure that any known risks are controlled within acceptable boundaries and to consistent standards; align business/functional strategy with risk appetite and seek to optimise the risk-return profile of the business; and set the right tone for the risk management culture of the team in internal communications and performance objectives.

- The Second Line of Defence comprises the Risk Control Owners ("RCOs"), supported by their respective functional organisation at each applicable layer of the organisation: Group, Business and Country. RCOs are responsible for ensuring that the residual risks within the scope of their responsibilities remain within appetite. There are three central aspects to discharging the responsibility: the identification of material risks; maintaining an effective control environment; and the understanding and accepting levels of residual risk. The RCO must also engage whatever skills and experience are necessary, including working with other RCOs to ensure comprehensive risk identification and effective control. The second line is independent of the origination, trading and sales functions to ensure that the necessary balance and perspective is brought to risk/return decisions. This is particularly important given that revenues are recognised immediately while losses arising from risk positions only manifest themselves over time. The Second Line has the authority to challenge, constrain and, if required, stop business activities where risks are not aligned with control requirements or risk appetite. The scope of a RCO's responsibilities is defined by a given Risk Type and the risk management processes which relate to that Risk Type. The application of laws, regulations, rules and other codes of practice that the Bank is subject to are the responsibility of the RCO within whose scope of activities they apply. Given the nature of OR, there are multiple RCO's. Risk control ownership for OR is shared between the OR function which has overall responsibility for OR and the specialist OR control owner. Each specialist OR control owner has responsibility for all OR which arise from a given set of specialist activities rather than a single operational risk type.

- The Third Line of Defence is GIA. It is an independent function whose role is defined and overseen by the Board Audit Committee/MANCO and is set out in the Group's Internal Audit Charter. GIA provides independent assurance of the effectiveness of management's control of its own business activities (the first line of defence) and of the processes maintained by the risk control functions (the second line of defence). As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the RMF. The findings from GIA's audits are reported to all relevant management and governance bodies accountable line managers, relevant oversight function or committee and sub-committees of the MANCO/Board. GIA has no responsibility for any of the activities it examines. It has unrestricted access to all records, information, personnel and physical properties of the Bank that are relevant to the audits and reviews being undertaken.