Standard Chartered

Standard Chartered Bank-India Branches

(Incorporated in the United Kingdom with limited liability)

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008

Background

The risk related disclosures and analysis provided in this section are primarily in the context of the disclosures required under Pillar 3 – Market Discipline of the New Capital Adequacy Framework (commonly referred to as Basel II).

The disclosures herein below are in respect of the India branch of the Standard Chartered Bank, United Kingdom (UK) except where required and specifically elaborated to include to other Standard Chartered Group entities operating in India. The Standard Chartered Group (The SCB 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 1,400 branches and offices in 57 countries and territories and almost 70,000 employees. The Standard Chartered Group is regulated by its home regulator viz. Financial Services Authority (FSA) of the United Kingdom.

The risk governance framework is in the process of being implemented in the case of recently acquired operations/entities e.g. American Express Bank Limited, India Branches.

The SCB Group and local management of Indian operations recognize that Basel II is a driver for continuous improvement of risk management practices. The SCB Group believes that adoption of leading risk management practices are essential for achieving its strategic intent. Accordingly, the Group has chosen the advanced approaches for measurement of credit and market risk under Basel II framework of our home regulator. However, in accordance with mandatory local regulations, we are adopting standardised approaches.

Risk Governance Framework

The basic principles of risk management followed by us are in line with our Group policy which includes:

- Balancing risk and reward: Risk is taken in support of the requirements of the Group's stakeholders. Risk should be taken in support of the Group strategy and within its risk appetite.
- Responsibility: Given the Group is in the business of taking risk, it is everyone's responsibility to ensure that risk taking is both disciplined and focused. The Indian Operations Group takes account of its social, environmental and ethical responsibilities 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 Group looks to anticipate future risks and to maximise awareness of all risk.
- Risk management: The Group aims to have a world class specialist risk function, with strength in depth, experience across risk types and economic scenarios.

Ultimate responsibility for the effective governance of the Indian Operations, including risk governance rests with Management Committee (MANCO), headed by Country Chief Executive Officer (CEO). MANCO's composition includes the Functional Heads for business, control, and support functions in India. It is responsible for governance of the Bank in India, including compliance with all local laws and regulations, internal policies and processes and external standards mandated by Standard Chartered Group, apart from effective cooperation and coordination between the main businesses of the Bank in India.

Governance structure of the Indian operations also reflects the Standard Chartered Group's functional structure, and therefore, the various functional heads/country committees have reporting lines to their Group Functional Heads/Committees as well as to the Country CEO.

MANCO has three permanent committees, the Assets and Liabilities Committee (ALCO), the Country Operational Risk Group (CORG), and the Portfolio Management Committee (PMC).

ALCO membership consists of the CEO and Business heads of various parts of the Bank viz. Corporate Bank, Consumer Bank, Treasury and functional heads of Finance, Credit and Market Risk. The committee is chaired by the CEO. ALCO is responsible for the establishment of and compliance with policies relating to balance sheet management including management of the liquidity and capital adequacy. Liquidity Management Committee (LMC) is an executive body which is a sub-committee of the Country ALCO. It was created to manage liquidity in the Bank. It draws its members from Finance, the ALM and the Businesses.

PMC membership consists of the CEO, Business Heads, Credit Risk Heads, Economist and Head of Group Special Assets Management. PMC also has sub-committee called 'Credit Policy Committee' which is chaired by Country Chief Risk Officer. PMC's responsibility is to review the credit portfolio in country to ensure that systems and controls are in place and operating effectively to ensure that portfolio quality is maintained within prescribed standards.

CORG membership consists of the CEO, Business Heads, Support Functions Heads and Country Operational Risk Assurance Manager. Its responsibility is to provide a forum for the identification, assessment, mitigation and subsequent monitoring of country level Operational Risk trends and issues. It also ensures that there is full compliance with the Group's Operational Risk Management and Assurance Framework and promotes and sustains a high level of operational risk management culture within the country through review of the country operational risk profile and assigning appropriate ownership, actions and progress for all risks.

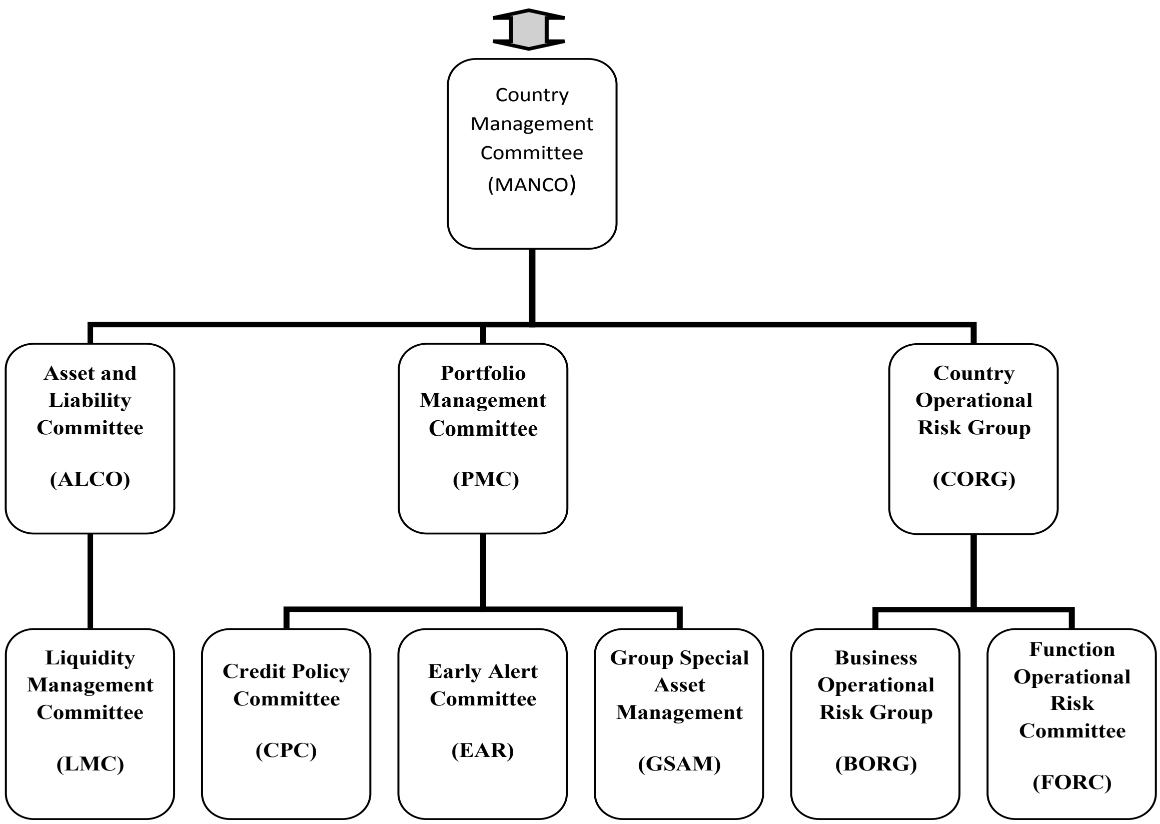
Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

There are sub-committees at business or functional level to support the CORG in discharging its above responsibilities.

The committee process ensures that standards and policies are cascaded down through the organization. Key information is communicated through the committees to CEO and Group so as to provide assurance that standards and policies are being followed.

The diagram below illustrates the high level committee structure.

Parent Group Level Committees/Functions



The Country Chief Risk Officer (CCRO) manages the risk function which is independent of the businesses and which:

- recommends Group standards and policies for risk measurement and management;
- monitors and reports Group risk exposures for country, credit, market and operational risk;
- recommends risk appetite and strategy;
- provides oversight for setting of risk limits and monitoring exposure against risk limits
- sets country risk limits and monitors exposure;
- chairs the PMC and CPC.

Individual MANCO members are accountable for risk management in their businesses and support functions. This includes:

- implementing the policies and standards across all business activity;
- managing risk in line with appetite levels; and
- developing and maintaining appropriate risk management infrastructure and systems to facilitate compliance with risk policy.

Our Risk Management Framework ("RMF") identifies 18 overall risk types, which are managed by designated Local Risk Type Owners ("LRTOs"), who have responsibility for setting minimum standards and governance and implementing governance and assurance processes. The LRTOs are all MANCO members and report up through specialist risk committees.

In support of the RMF we use a set of risk principles, which are sanctioned by our Group Risk Committee. These comprise a set of statements of intent that describe the risk culture that our Group wishes to sustain. All risk decisions and risk management activity should be in line with, and in the spirit of, the overall risk principles of the Group. The governance process is designed to ensure:

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

- business activities are controlled on the basis of risk adjusted return;
- risk is managed within agreed parameters with risk quantified wherever possible;
- risk is assessed at the outset and throughout the time that the entity continues to be exposed to it;
- all applicable laws, regulations and governance standards are abided by;
- high and consistent ethical standards are applied to the entity's relationships with its customers, employees and other stakeholders; and
- activities are undertaken in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorisation and approval, recording, safeguarding, reconciliation and valuation.

  The Country Chief Risk Officer, together with Group Internal Audit and Country Operational Risk Assurance Manager, provide assurance, independent from the businesses, that risk is being measured and managed in accordance with our standards and policies.

Risk Appetite

Risk appetite is an expression of the amount of risk the entity is prepared to take to achieve its strategic objectives. The entity's risk appetite defines the acceptable level of earnings volatility.

Recognising a range of outcomes as business plans are implemented, risk appetite reflects the entity's capacity to sustain potential losses at varying levels of probability, based on available capital resources.

In line with the Group policy, the entity has defined its risk appetite in the context of three key criteria: the overall' capacity to take risk; balancing the expectations of all key stakeholders; and support for the Group's credit rating.

The entity uses a range of quantitative risk indicators including capital ratios, profitability, return on equity, portfolio credit risk profile and market risk VaR, through which senior management monitor the entity's risk profile. In addition to financial measures of risk, the entity also controls risk through concentration caps and underwriting policies. Measures vary by business and product area.

The annual business planning and regular performance management processes aim to ensure the expression of risk appetite remains appropriate.

Stress Testing & portfolio impact analysis

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

Stress testing and scenario analysis help to inform management with respect to:

- the identification of potential future risks;
- the setting of the entity's risk appetite;
- the nature and dynamics of the risk profile;
- the robustness of risk management systems and controls;
- the adequacy of contingency planning; and
- the effectiveness of risk mitigants.

Stress testing framework

Our stress testing framework has been designed to meet the following requirements:

- enable the Group to set and monitor its risk appetite;
- identify key risks to the entity's strategy, financial position, and reputation;
- assess the impact on the entity's profitability and business plans;
- seek to ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing;
- inform senior management: and
- satisfy regulatory requirements.

The stress testing forum is led by the Risk function with participation from the businesses, Finance and ALCO. Its primary objective is to seek to ensure the entity understands the earnings volatility and capital implications of given stress scenarios. A key responsibility of the stress testing forum is to generate and consider pertinent and plausible scenarios that have the potential to adversely affect the entity.

When there is market turbulence (as was witnessed in 2007-2008), portfolio impact analysis is intensified at country and business levels, with specific focus on certain asset classes, client segments and the potential impact of macro economic factors. These stress tests take into consideration possible future scenarios that could arise as a result of prevalent market conditions.

Scope of application of Basel II Consolidation Framework

The top bank in India of the Group to which the revised capital framework applies is Indian branches of Standard Chartered Bank (SCB or the Bank), which is incorporated with limited liability in the United Kingdom. Indian branch operations are conducted in accordance with the banking license granted by Reserve Bank of India under the Banking Regulation Act 1949. The ultimate parent company of the Bank is Standard Chartered PLC, which is listed on both the London Stock Exchange and the Stock Exchange of Hong Kong.

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

The consolidation norms for accounting are determined by the prevailing Indian Generally Accepted Accounting Principles (GAAP) viz. AS 21 Consolidated Financial Statements (CFS) and AS 27 Financial Reporting of Interests in Joint Ventures (JVs). The regulatory requirements are governed by circulars and guidelines of the Reserve Bank of India (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
According to Indian GAAP, existence of control/joint control to govern the financial and operating policies of the subsidiary or joint venture, respectively, is necessary for accounting consolidation. However, certain entities (Non banking finance companies) have to be consolidated for regulatory capital adequacy purposes even where 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
According to 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 method requires the 'line by line' consolidation and elimination of all inter-group balances. However, for the purpose of regulatory consolidation under capital adequacy framework, the risk weighted assets 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 those with that of the top bank in the consolidated group. We have 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 summarized 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 Helen Nominees India Pvt Ltd	Fully owned subsidiary of Licensed bank	Holding government securities and shares/ debentures in limited companies on behalf of SCB India including those given as collaterals to SCB against customer advances	Private Limited Company incorporated under Indian Companies Act	Full
Standard Chartered Investments & Loans India Limited (SCILL)	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 categorized as Non deposit taking systemically important NBFC.	Full
Standard Chartered Finance Limited (SCFL)	Entity controlled by Licensed bank's Parent/Group	Rendering BPO services and marketing services for SCB India branches	Private Limited Company incorporated under Indian Companies Act	Full

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

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

Capital structure and capital adequacy

Capital structure – Summary of main features of capital instruments

a) Tier 1 capital include the following

Capital funds injected by Head office (Standard Chartered Bank, UK), certain percentage of net profits of each year retained as per statutory norms, remittable net profits retained in India for meeting minimum regulatory capital requirements, reserves created out of profits on account of sale of immovable properties/held to maturity investment. All of these funds are not repatriable/distributable to head office as long as the bank operates in India. Also, no interest is payable on these funds.

b) Tier 2 capital comprises of the following elements

i) 45% of Revaluation reserve created due to periodic revaluation of immovable properties in accordance with the Indian GAAP
ii) General provisions on standard (performing) assets created in line with RBI regulations
iii) Subordinated debts, both local currency and foreign currency instruments

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)(iii) in financial statements for details of outstanding subordinated debts.

Capital and risk weighted assets (Rs. in 000s)

	31 March 2008		
	Solo bank*		Consolidated bank*
	Basel II	Basel I	Basel II
Tier 1 Capital :			
Head Office Capital	6,757,992	6,757,992	6,757,992
Paid up capital			4,615,757
Eligible reserves	62,315,499	62,315,499	62,617,312
Goodwill and other intangible assets	(2,221,218)	(2,221,218)	(2,247,089)
Unconsolidated subsidiaries/associates	(100)	(100)	(100)
Other regulatory adjustments	(5,538)	(350,059)	(5,538)
Total Tier 1 Capital	**66,846,635**	**66,502,114**	**71,738,335**
Tier 2 Capital :			
Eligible revaluation reserves	5,548,984	5,548,984	5,548,984
General provision	2,613,593	2,613,593	2,613,593
Debt instruments eligible as Upper Tier 2			
(of which amount raised during the year Rs 10,030,000)	13,980,000	13,980,000	13,980,000
Qualifying subordinated debts (of which amount raised during the year Rs 000s)	13,980,000	13,980,000	13,980,000
Less: Amortisation of qualifying subordinated debts	(2,760,000)	(2,760,000)	(2,760,000)
Other regulatory adjustments	-	(344,521)	-
Total Tier 2 Capital	**19,382,577**	**19,038,057**	**19,382,577**
Investments in other banks			
Other deductions			
Total capital base	**86,229,212**	**85,540,171**	**91,120,913**
Minimum regulatory capital requirements			
Credit risk	**46,583,041**	**41,445,471**	**47,732,282**
Standardized approach portfolios	46,543,990	-	47,693,230
Securitisation exposures	39,051	-	39,051
Market risk	**20,991,922**	**21,045,329**	**20,992,649**
Interest rate risk	10,411,970	10,362,602	10,412,345
Foreign exchange risk (including gold)	315,000	315,000	315,000
Equity risk	31,369	31,369	31,369
Counterparty/settlement risks	10,233,583	10,336,358	10,233,935

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

(Rs. in 000s)

	31 March 2008 Solo bank*		Consolidated bank*
	Basel II	Basel I	Basel II
Operational risk	**5,705,572**	**–**	**6,087,798**
Basic indicator approach	5,705,572	–	6,087,798
Total minimum regulatory capital requirements	73,280,535	62,490,800	74,812,728
Risk weighted assets and contingents			
Credit risk	517,589,341	460,505,232	530,358,685
Market risk (including counterparty/settlement risks)	233,243,579	233,836,994	233,251,652
Operational risk	63,395,242	–	67,642,198
Basic indicator approach	63,395,242		63,395,242
Total Risk weighted assets and contingents	814,228,162	694,342,226	831,252,536
Capital ratios			
Tier 1 capital	8.21%	9.58%	8.63%
Tier 2 capital	2.38%	2.74%	2.33%
Total capital	10.59%	12.32%	10.96%

* Solo bank represents main licensed bank of the Group in India and Consolidated bank includes group controlled entities operating in India and consolidated for limited purpose of capital adequacy framework. Basel 2 CRAR for SCILL is 33.99% and for SCFL it is 15.12%. The figures used for group controlled entities are based on unaudited results.

Capital adequacy approach

The bank has a dynamic and robust capital planning/management process with the overall objectives of maintaining adequate capital to meet regulatory standards/expectations and optimum use of capital at all times. Capital planning/management is the responsibility of country Asset and Liability Committee (Country ALCO) with the active support and guidance of Group ALCO, Group Capital Management Committee and Group Treasury.

The capital position is reviewed as part of the annual budget process and regular business performance forecast process. This process of capital evaluation takes into account business growth (organic as well as inorganic), additional capital needs due to expected regulatory changes and impact of certain stress scenarios. Additional capital requirements are subjected to a regular/robust review and approval process by Senior Management of Country as well as Group Head Office. As a target ratio, the country management aim is to maintain a capital adequacy ratio of around 10% at all times. There is a monthly reporting/monitoring process to Country ALCO and Group ALCO on actual position.

The bank being a branch operation and considering the current regulatory environment, its source of capital is primarily infusion of capital by Group Head Office and profits generated locally. Our Group is in the top 25 FTSE – 100 companies by market capitalisation and is well established in growth markets such as Asia, Africa and the Middle East. It remains strongly capitalised and has a target capital adequacy ratio 12-14% at Group level.

Our Group Head Office has rolled out a comprehensive internal capital adequacy assessment process framework in line with Pillar 2 requirements of revised capital adequacy framework implemented by our home regulator. This Risk Management Framework ensures that all types of risk are considered in analysing capital requirements and in establishing clear accountability for robust systems and controls. The framework includes, inter alia, monitoring and reporting of key risks of Pillar 1 as well as Pillar 2 such as Credit risk, Market Risk, Operational Risk and also Liquidity Risk, Interest Rate Risk in the Banking Book, Credit Concentration Risk, Operations Risk etc. This framework encompasses application of advanced models/techniques such as Economic Capital, VaR and Group Senior Management oversight of key risks via committees with clear roles/responsibilities. Currently, there are processes for Stress Testing for some of key material risks and are undergoing improvements in line with market best practices.

Credit risk – General

Credit risk is the risk that a counterparty to a financial instrument will cause financial loss for the entity by failing to discharge an obligation. Credit exposures include both individual borrowers and groups of connected counterparties and portfolios in the banking and trading books. Credit risk arises from direct lending activities as well as off balance sheet transactions such as trade finance services and also derivatives transactions. Credit risk is one of three core risks the entity faces and therefore, considerable attention and resources are devoted to managing this risk.

Group Risk Committee alongwith PMC at country level have clear responsibility for credit risk. GRC's role broadly encompasses the following:

- Setting Credit risk management standards, policies and processes
- Delegation of Credit authorities for ensuring controlled credit decision making through appointment of Risk officers for each businesses
- Ensure avoidance of conflict of interest while taking credit decision by having a reporting line for the risk officers into the Group Chief Risk Officer which is separate from business (relationship/sales).

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 ***(Continued)***

We have a robust credit risk management culture underpinned by a strong risk architecture comprising of senior level engagement and through well laid out credit policy & process framework with accountability at all levels of the risk and business chain.

Polices and procedures that are specific to each business are established by both Consumer and Wholesale Banking. These are consistent with Group-wide policies but adapted to reflect the different risk environments and portfolio characteristics. There are credit risk officers for both the Consumer and Wholesale Banking businesses, who have their primary reporting line into Chief Risk Officers for the respective business. This ensures the independence of the Risk function from the origination and sale functions.

Both Wholesale Bank and Consumer Bank use advanced measurement approaches for evaluation of credit risk for internal management like evaluating new credit proposals, portfolio management, allocation of capital etc. These advanced approaches involve substantial use of statistical models and determination of key risk parameters viz. probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). Use of these risk parameters results in a more scientific way of measuring credit risk. The statistical models require significant amount of high quality reliable data and have recently undergone a thorough review/challenge process by internal/external parties and regulatory authorities under the Basel II framework. Both wholesale Banking and Consumer Banking have fully operational data warehouses.

Wholesale Banking

Within the wholesale banking business a Pre-sanction appraisal is carried out by the relationship manager through a Business Credit Application (BCA). Credit risk is managed through a framework which sets out policies covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators and the approvers in the Risk function. BCA's are reviewed and duly approved by the relevant credit authority using an alphanumeric grading system for quantifying risks associated with a counterparty. The grading is based on a probability of default measure, with customers analyzed against a range of quantitative and qualitative measures. The numeric grades run from 1 to 14. Counterparties with lower credit grades are assessed as being less likely to default. An A to C scale is assigned to the original numeric rating scale to enable more granular mapping of the probability of default, which results in a more refined risk assessment, risk control and pricing. A counterparty with an A suffix has a lower probability of default than a counterparty with a C suffix. Credit grades 1A to credit grade 12C are assigned to performing customers while credit grades 13 and 14 are assigned to non-performing (or defaulted) customers. There is no direct relationship between the internal credit grades and those used by external rating agencies. Our credit grades are not intended to replicate external credit grades, although as the risk factors used to grade a borrower are often similar, a borrower rated poorly by an external rating agency is typically rated in the lower rank of our internal credit grades. Also, we have a system of rating facilities numerically in order to evaluate/measure the facility characteristics.

Expected loss in addition to absolute nominal is used in the assessment of individual exposures and portfolio analysis. Expected loss is the long-run average credit loss across a range of typical economic conditions. 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 level credit committee. These committees are responsible to the Group Risk Committee. All the credit facilities are subject to an annual credit review process. However, since recently, Loss given default (LGD) is being used in the assessment of individual exposures and portfolio analysis and in the delegation of credit approval authority.

SCB's Credit Policy 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 (CRC) 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, 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 Wholesale Banking, origination and approval roles are segregated.

Sale of credit products is governed by the DSR (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 audits ensure compliance to policy and delegated authorities.

Credit grades within Consumer banking are based on a probability of default calculated using advanced internal rating based (IRB) models. In case of portfolio where such IRB models are yet to be developed, the probability of default is calculated using portfolio delinquency flow rates. An alphanumeric grading system identical to that of the Wholesale Banking is used as an index of portfolio quality.

To aid credit managers in portfolio management, regular internal risk management reports contain information on key economic/environment trends across major portfolios, portfolio delinquency and loan impairment performance, as well as IRB portfolio metrics including migration across credit grades and other trends.

Problem Credit Management and Provisioning

Credit Monitoring (review of performance and compliance with risk triggers/covenants) is undertaken for WB customers on a quarterly basis and on a monthly basis for CB customers. In addition, account conduct is also tracked on a monthly basis in terms of past dues, excesses, documentation, compliance with covenants and progress on exits accounts through the Account Subject to Additional Review Process (ASTAR). Potential problem credits are picked up through the credit monitoring process and are reported to the Early Alert Committee (EAR) for additional review. In addition, portfolio level review for both WB & CB is undertaken to track portfolio performance against local underwriting standards/Group Policy. Outcomes of such reviews are placed before the quarterly Portfolio Management Committee for review.

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

Wholesale Banking

In Wholesale Banking, accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is rapid decline in the client's performance within the industry, a breach of covenants, non performance of an obligation, or there are issues relating to ownership or management. Such accounts and portfolios are subject to a dedicated process with oversight involving Senior Risk Officers and Group Special Asset Management ("GSAM"). Account plans are re-evaluated and remedial actions are agreed and monitored until complete credit rating is re-affirmed. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account or immediate movement of the account into the control of GSAM, the specialist recovery unit.

There are no differences between definition of past due/impaired account and provisioning norms for local accounting and regulatory purposes. Loans are designated as impaired and considered non-performing where analysis and review recognised weakness 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 of the Group. The provisioning policy is higher of the minimum provision required under RBI guidelines and that required under the global policy of Group. Where any amount is considered uncollectable, a specific provision is raised. In any decision relating to the raising of provisions, we attempt to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Where it is considered that there is no realistic prospect of recovering an element of an account against which an impairment provision has been raised, then that amount will be written off.

We also maintain general provision as a percentage of performing standard advances as prescribed by the RBI to cover the inherent risk of losses.

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and general impairment provisions. At 97% per cent, the Wholesale Banking non-performing portfolio is well covered. The balance uncovered by individual impairment provision represents the value of collateral held and/or the Group's estimate of the net value of any work-out strategy.

Consumer Banking

Within Consumer banking, an account is considered to be delinquent when payment is not received on the due date. For delinquency reporting purposes, we follow international industry standards measuring delinquency as of 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. There are no differences between definition of past due/impaired account and provisioning norms for local accounting and regulatory purposes. Loans are designated as impaired and considered non-performing where recognised weakness 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 higher of the minimum provision required under RBI guidelines and that required under the global policy of Group is considered for local accounting/reporting purposes. In case of unsecured products, outstanding balances generally written off at 150 days past due or full provisions are created. In case of secured products like Mortgage, provision is raised after considering the realizable 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.

We also maintain general provision as a percentage of performing standard advances as prescribed by the RBI to cover the inherent risk of losses.

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 March 2008	31 March 2007
Inter bank exposures	10,373,850	19,612,868
Investments (HTM)	11,028,159	7,328,339
Advances	337,292,877	304,713,771
Total gross fund based exposures	**358,694,886**	**331,654,978**
Specific provisions/Provisions for depreciation in the value of investment	(3,777,621)	(3,675,795)
Total net fund based exposures	**354,917,265**	**327,979,183**
Fx and derivative contracts	262,052,572	155,721,066
Guarantees, Acceptances, endorsements and other obligations	138,325,104	105,167,284
Other commitments and credit lines*	51,795,146	39,479,354
Total gross non fund based exposures**	**452,172,822**	**300,367,704**
Specific provisions	(1,237)	(3,083)
Total net non fund based exposures	**452,171,585**	**300,364,621**

* 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

** For non fund based exposures credit risk exposures or equivalents are computed as under :

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 ***(Continued)***

- 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 a two steps as under :
  – computation of current credit exposure which is sum of the positive mark-to-mark 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

(Rs. in 000s)

Nature & category of exposures	31 March 2008			31 March 2007		
	Credit risk exposures			Credit risk exposures		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Inter bank exposures	10,373,850	-	10,373,850	19,612,868	-	19,612,868
Investments (HTM)	11,028,159	-	11,028,159	7,328,339	-	7,328,339
Advances	337,292,877	-	337,292,877	304,713,771	-	304,713,771
Total gross fund based exposures	358,694,886	-	358,694,886	331,654,978	-	331,654,978
Specific provisions	(3,777,621)	-	(3,777,621)	(3,675,795)	-	(3,675,795)
Total net fund based exposures	354,917,265	-	354,917,265	327,979,183	-	327,979,183
Fx and derivative contracts (Addon+MTM)	262,052,572	-	262,052,572	155,721,066	-	155,721,066
Guarantees, Acceptances, endorsements and other obligations	138,325,104	-	138,325,104	105,167,284	-	105,167,284
Guarantees given on behalf of constituents	-	-	-	-	-	-
Other commitments and credit lines*	51,795,146	-	51,795,146	39,479,354	-	39,479,354
Total gross non fund based exposures**	452,172,822	-	452,172,822	300,367,704	-	300,367,704
Specific provisions	(1,237)	-	(1,237)	(3,083)	-	(3,083)
Total net non fund based exposures	452,171,585	-	452,171,585	300,364,621	-	300,364,621

Note: Geographic distribution of exposure is prepared on the same basis as adopted for segmental reporting under AS17.

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

(Rs. in 000s)

Nature & category of industry	31 March 2008			31 March 2007		
	Credit risk exposures			Credit risk exposures		
	Fund based	Non fund based	Total	Fund based	Non fund based	Total
Loans to individuals						
– Mortgages	5 9,452,547	-	59,452,547	65,995,468	-	65,995,468
– Other	50,256,333	1,443,594	51,699,927	45,083,426	-	45,083,426
– Small and medium enterprises	38,615,594	6,356,306	44,971,900	23,271,954	3,531,855	26,803,809
Consumer Banking	**148,324,474**	**7,799,900**	**156,124,374**	**134,350,848**	**3,531,855**	**137,882,703**
Coal	-	-	-	-	78,000	78,000
Mining	3,717,620	629,960	4,347,580	1,659,608	275,568	1,935,176
Iron & Steel	3,831,283	4,543,689	8,374,972	2,606,521	3,305,052	5,911,573
Other Metals & Metal Products	10,194,013	7,708,840	17,902,853	8,103,843	7,252,381	15,356,224
All Engineering	15,296,218	30,580,423	45,876,641	11,444,862	30,508,409	41,953,271
Of which : Electronics	4,803,720	7,101,044	11,904,764	4,947,704	11,965,173	16,912,877
Electricity (Gen & Trans)	-	-	-	840,518	-	840,518
Cotton Textiles	634,211	32,828	667,039	324,419	198,352	522,771
Jute Textiles	-	-	-	-	-	-
Other Textiles	9,337,571	1,752,190	11,089,761	7,719,072	1,175,149	8,894,221
Sugar	1,372,748	31,741	1,404,489	599,713	223,162	822,875
Tea	37,816	35,584	73,400	107,687	7,381	115,068
Food Processing	1,540,743	254,840	1,795,583	1,362,141	206,659	1,568,800
Vegetables Oils (including Vanaspati)	980,053	1,267,819	2,247,872	1,609,703	1,534,668	3,144,371
Tobacco & Tobacco Products	2,142,901	528,002	2,670,903	1,012,238	672,638	1,684,876
Paper & Paper Products.	1,671,469	920,476	2,591,945	1,435,044	1,305,111	2,740,155
Rubber & Rubber Products.	1,679,065	1,000,700	2,679,765	464,711	938,453	1,403,164

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

Nature & category of industry	31 March 2008			31 March 2007		
	Credit risk exposures			Credit risk exposures		
	Fund based	Non fund based	Total	Fund based	Non fund based	Total
Chemicals, Dyes, Paints etc.	19,402,035	13,544,869	32,946,904	21,110,918	9,272,424	30,383,342
Of which Fertiliser	200,559	279,489	480,048	300,074	765,338	1,065,412
Of which Petro-chemicals	3,957,176	4,660,327	8,617,503	7,638,767	3,204,487	10,843,254
Of which Drugs & Pharmaceuticals	9,907,848	2,664,588	12,572,436	8,527,992	1,303,446	9,831,438
Cements	882,149	2,299,036	3,181,185	491,978	543,762	1,035,740
Leather & Leather Products.	325,410	99,705	425,115	100,047	22,858	122,905
Gems & Jewellery	141,267	665,992	807,259	134,194	655,110	789,304
Constructions	4,240,984	13,250,989	17,491,973	6,491,890	10,961,014	17,452,904
Petroleum	1,678,065	2,887,042	4,565,107	2,106,359	953,401	3,059,760
Automobiles including trucks	9,693,365	8,590,019	18,283,384	8,203,974	9,411,541	17,615,515
Computer software	3,147,895	4,404,411	7,552,306	786,246	7,786,181	8,572,427
Infrastructure	8,209,479	26,297,468	34,506,947	7,556,429	22,018,297	29,574,726
Of which Power	159,543	2,059,425	2,218,968	-	2,008,617	2,008,617
Of which Telecommunications	1,172,756	9,846,264	11,019,020	467,936	8,938,175	9,406,111
Of which Roads & Ports	6,818,180	13,211,966	20,030,146	7,088,492	11,071,506	18,159,998
Other Industries	33,156,036	67,206,735	100,362,771	28,594,336	47,579,422	76,173,758
NBFC & Trading	39,797,456	6,193,859	45,991,315	33,707,193	3,812,274	37,519,467
Residual advances to balance						
Gross Advances	15,858,551	7,951,872	23,810,409	21,790,270	576,410	22,366,680
Wholesale Banking	**188,968,403**	**202,679,089**	**391,647,478**	**170,363,914**	**161,273,677**	**331,637,591**
Specific provision (Including IIS)	(3,777,621)	(1,237)	(3,778,844)	(3,676,786)	(3,083)	(3,679,869)
Total Net Advances	333,515,256	210,477,752	543,993,008	301,037,976	164,802,449	465,840,425
Total Inter bank exposures	10,373,850	-	10,373,850	19,612,866	-	19,612,866
Total invest (HTM)	11,028,159	-	11,028,159	7,328,339	-	7,328,339

d) Analysis of residual contractual maturity of assets.

(Rs. in 000s)

Maturity bucket	Loans and advances	Investments
1-14 days	37,591,032	37,307,806
15-28 days	24,286,245	11,191,452
29 days – 3 months	64,556,711	28,694,325
3 months – 6 months	22,883,710	7,122,099
6 months – 1 year	20,005,746	5,115,403
1 year – 3 years	95,038,059	34,968,623
3 years – 5 years	20,352,756	309,100
Over 5 years	48,800,997	2,568,630
Total	333,515,256	127,277,438

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

(Rs. in 000s)

	31 March 2008	31 March 2007
Substandard	3,374,120	5,617,816
Doubtful	2,621,200	775,493
-Doubtful 1	907,454	395,281
-Doubtful 2	1,625,841	277,422
-Doubtful 3	87,905	102,790
Loss	1,236,054	1,601,519
Gross NPAs	7,231,374	7,994,828
Provisions (includes IIS)	3,777,621	3,675,795
Net NPAs	3,453,753	4,319,033
Cover ratio	52.24%	45.98%

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 ***(Continued)***

g) NPA Ratios

	31 March 2008	31 March 2007
Gross NPAs to gross advances	2.14%	2.62%
Net NPAs to net advances	1.04%	1.43%

h) Movement of NPAs (Gross) (Rs. in 000s)

	31 March 2008		31 March 2007	
	Gross	Net	Gross	Net
Balance, beginning of the year	7,994,828	4,319,033	6,838,098	3,789,502
Additions during the year	3,330,362	504,700	4,363,639	2,242,797
Reductions during the year	(4,093,816)	(1,369,980)	(3,206,909)	(1,713,266)
Balance, end of the year	7,231,374	3,453,753	7,994,828	4,319,033

i) Movement of provisions for NPAs (Rs. in 000s)

	31 March 2008	31 March 2007
Balance, beginning of the year	2,395,909	1,900,199
Add : Provisions during the year	2,191,994	1,576,590
Less : Utilisation/writeback of provisions no longer required	(1,909,479)	(1,080,880)
Balance, end of the year	2,678,424	2,395,909

j) Amount of Non-Performing Investments & k) Amount of provisions held for non-performing investments (Rs. in 000s)

	31 March 2008	31 March 2007
Balance, beginning of the year	27,371	20,909
Additions during the year	11,701	26,096
Reductions during the year	(1,780)	(19,634)
Balance, end of the year	37,292	27,371
Total provisions held at the end of the year	37,292	27,371

l) Movement of provisions for depreciation on investments (Rs. in 000s)

	31 March 2008	31 March 2007
Balance, beginning of the year	3,450,502	4,115,978
Add : Provisions made during the year	1,216,140	501,458
Less : Write-off against provisions during the year		(3,420)
Less : Write back of provisions during the year	(1,914,732)	(1,163,514)
Balance, end of the year	2,751,910	3,450,502

Credit risk: Disclosures for portfolios subject to the standardised approach

As per the provisions of the Basel II Framework, all banks have to mandatorily adopt standardized approach for measurement of credit risk. This approach permits extensive use of external rating agencies for credit exposures to counterparties in the category of sovereigns, international banks, corporates, securitization exposures. The credit rating agencies used by us for these types of exposures are those are as under.

Domestic Credit Rating Agencies	International Credit Rating Agencies
CRISIL Limited	Moody's
ICRA Limited	Standard and Poors (S&P)

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. The main requirements of the process are as follows:

- Unrated short term claims are risk weighted one notch higher than the risk weight applicable to the rated short term claim on that counterparty
- All claims on the counterparty are risk weighted at 150% in case any of the short term claim or long term exposure on the counterparty attracts 150% risk weight.
- Seniority of the claims are considered while applying the issue specific rating to other unrated claims i.e. it is ensured that unrated claim ranks 'Pari Passu' or senior to the rated claim.
- Collateral or security is not separately recognized if the issue specific rating has already factored in that aspect in the rating assigned.
- Benefit of issue specific rating is availed for unrated exposures of the same counterparty only if the currency of unrated exposure matches with that of the rated issue.

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

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

(Rs 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	10,373,850	-	10,373,850	10,373,850	-	-	-
Investments (HTM)	11,028,159	-	11,028,159	2,904,778	8,123,381	-	-
Advances	337,292,877	(1,678,124)	335,614,743	56,271,635	205,492,196	73,850,922	-
Total fund based exposures	**358,694,886**	**(1,678,124)**	**357,016,752**	**69,550,263**	**213,615,577**	**73,850,922**	**-**
Fx and derivative contracts	262,052,572	-	262,052,572	200,799,633	61,252,939	-	-
Guarantees, Acceptances, endorsements and other obligations	138,325,104	(334,245)	137,990,859	52,499,158	81,740,643	3,751,058	-
Undrawn Commitments and others	51,795,146	-	51,795,146	38,087,047	13,514,298	193,801	-
Total non fund based exposures	**452,172,822**	**(334,245)**	**451,838,577**	**291,385,838**	**156,507,880**	**3,944,859**	**-**

Credit risk mitigation: disclosures for standardised approaches

Our credit risk mitigation techniques, apart from traditional practices of taking security of cash/other physical collaterals, include taking guarantees of high credit quality parties, avoidance of credit concentration in a single industry/counterparty, perfection of legal documentation, master netting agreements. Collateral types for credit risk mitigation include cash, residential and commercial and industrial properties; 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 reassessment of credit limits. The frequency of collateral valuation is driven by the volatility in each class of collateral. The valuation of collateral is monitored and back tested regularly. In the case of WB, the BCA's provide details of credit facilities, and terms and conditions governing the security, margin, covenants, risk triggers and the documentation. The collateral security is inspected per facility agreement and is generally carried out on an annual basis. Charges are created on security where applicable. It is the bank's policy that no disbursals will be permitted until all documents are completed, executed, delivered and registered, if necessary. Any deviation or delay requires an approval from authorized Credit Officers. Documentation deferrals are tracked and reviewed on a monthly basis.

Guarantees taken can be catogorised as follows;
- Guarantee from a bank (including central banks), insurance company credit wrap 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

Concentration risk

Credit concentration risk in the Wholesale Banking portfolio is managed through the PMC, which is chaired by the Country Chief Risk Officer and comprises members of senior management from the Risk function and the business. Various concentration dimensions are assessed including industry sector, geographic spread, credit rating, customer segment and exposure to single counterparties or groups of related counterparties.

Credit concentration risk in the Consumer Banking portfolio is managed within exposure limits set for each product segment. These limits are reviewed at least annually and are approved by the responsible business and risk officer in accordance with their delegated authority level.

Securitisation: disclosure for standardised approach

- Securitisation transactions are undertaken generally with the objectives of credit risk transfers, liquidity management, meeting regulatory requirements such as capital adequacy, priority sector lending and asset portfolio management. The bank participates in both traditional securitization as well as synthetic securitizations. Further, the bank has played role of originator as well as investor. Generally, the bank has provided the credit enhancement services, liquidity facilities, interest rate derivative products and acts as a service provider only in case of securitizations where the bank has played the role of originator.

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

Summary of the bank's accounting policies for securitisation activities

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

Regulatory Capital Approach

As per the provisions of the Basel II Framework, all banks have to mandatorily adopt standardized approach for capital treatment of securitization transactions. This approach requires extensive use of external rating agencies for risk weighting securitisation exposures. The credit rating agencies used by us for these types of exposures are those recognised by RBI in paragraphs 6.1.2 & 6.1.3 of the RBI circular DBOD.No.BP.BC.90/20.06.001/2006-07 dated April 27, 2007.

Names of the credit rating agencies recognized are as under:

Domestic Credit Rating Agencies	International Credit Rating Agencies
Credit Analysis and Research Limited (CARE)	FITCH
CRISIL Limited	Moody's
FITCH INDIA	Standard and Poors (S&P)
ICRA Limited	

Quantitative Disclosures

(Rs. in 000s)

	For the year ended 31 March 2008	
	Assets derecognised	Assets not derecognized
The total outstanding exposures securitised by the bank and subject to the securitisation framework by exposure type		
- Mortgages	5,317,895	-
- Personal Loans		-
- Corporate loans	38,563,112	-

	For the year ended 31 March 2008
For exposures securitised by the bank and subject to the securitization framework	
- amount of impaired/past due assets securitized*	
- losses recognised by the bank during the current period broken down by exposure type (Amount debited to P/L)	
- Mortgages	-
- Personal loans	-
- Corporate loans	(66,411)

* amount represents outstanding as of reporting period.

(Rs. in 000s)

	As at 31 March 2008
Aggregate amount of securitization exposures retained or purchased	
- Credit risk in assets retained or purchased	-
- Credit enhancement	962,620
- Liquidity facilities	-
- Other interests/exposures	-

Market risk in trading book

This note should be read in conjunction with the section on Risk exposures in derivatives in note 18(E)(vii)(o)(1) & (2) in financial statements.

We recognise the market risk as the exposure created by potential changes in market prices and rates. We are exposed to market risk arising principally from customer driven transactions. The objective of the Group's market risk policies and processes is to obtain the best balance of risk and return while meeting our customers' requirements.

Market risk within our Group is governed by the Group Risk Committee, which agrees groupwide policies and levels of risk appetite in terms of Value at Risk ("VaR"). The Group Market Risk Committee ("GMRC") provides market risk oversight and guidance on policy setting. Policies cover both trading and non-trading books of the Group.

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

At country level, there is an independent market risk function to implement group market risk policies/limits and to monitor the market risk exposures. Policies cover both trading and non-trading books of the Group. Limits for India location and portfolio are proposed by the businesses within the terms of agreed policy. Group Market Risk ("GMR") approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and currency 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 currency and volatility shifts, limits on volatility risk by currency pair and other variables that determine the options' value.

Value at Risk (VaR)

We measure the risk of losses arising from future potential adverse movements in interest and exchange rates, prices and volatilities using a VaR methodology.

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.

We use historic simulation as its VaR methodology with an observation period of one year. Historic simulation involves the revaluation of all contracts which have not matured to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.

VAR models are back tested against actual results to ensure pre-determined levels of statistical accuracy are maintained.

We recognise that there are limitations to the VaR methodology including the possibility that the historical data may not be the best proxy for future price movements.

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, therefore, 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. Ad hoc scenarios are also prepared reflecting specific market conditions. A consistent stress testing methodology is applied to trading and non-trading books.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. GMRC has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. GRC considers stress testing results as part of its supervision of risk appetite.

The stress test methodology assumes that management action would be limited during a stress event, reflecting the decrease in liquidity that often occurs.

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.

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.

Derivatives

Derivatives are financial contracts which derive characteristics and value from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps and options transactions in the foreign exchange, credit and interest rate markets. Derivatives are an important risk management tool for banks and their customers because they can be used to manage the risk of price, interest rate and exchange rate movements.

Our derivative transactions are principally in instruments where the mark-to-market values are readily determinable by reference to independent prices and valuation quotes or by using standard industry pricing models.

We enter into derivative contracts in the normal course of business to meet customer requirements and to manage own exposure to fluctuations in interest, credit and exchange rates. Derivatives are carried at fair value and shown in the balance sheet as separate assets and liabilities. Recognition of fair value gains and losses depends on whether the derivatives are classified as trading or for hedging purposes.

We apply the future exposure methodology to manage counterparty credit exposure associated with derivative transactions.

Refer section on capital structure and adequacy on page for details of capital requirements for key market risk components.

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

Operational Risk

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. Our Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

A 'Country Operational Risk' function, independent from the businesses, is responsible for establishing and maintaining the overall operational risk framework, and for monitoring the country's key operational risk exposures. This unit is supported by Operational Risk units within business segments and support functions. These units are responsible for ensuring compliance with policies and procedures in the business, monitoring key operational risk exposures, and the provision of guidance to the respective business areas on operational risk.

Compliance with operational risk policies and procedures is the responsibility of all managers. Country Operational Risk Assurance Manager's (CORAM) role is to drive the consistent adoption of the Operational Risk Management and Assurance framework in-country and provide independent assurance of compliance by the Businesses and Functions with legal, regulatory and internal policy obligations in-country.

There is a robust operational risk management and assurance framework (ORMAF), the core component of which is risk management. There are four steps in this ORMAF process.

- Risk identification i.e. identification of exposures and events that could impact the bank and the key inputs through steps are key control standard assessments (KCSAs), Key Risk Indicators (KRIs), Loss data bases, quality assurance reviews etc.
- Risk Assessment ie. Once identified the risk is measured into high, medium and low risk using a standard operational risk grading matrix which considers probability of occurrence of the event and its impact if given the occurrence.
- Risk mitigation and control i.e. this requires selection of one of the four options accept risk within limit, reduce, transfer or avoid it.
- Risk monitoring i.e. on-going monitoring and assessment of the risk.

Our qualitative standards are aimed at meeting the requirements of advanced measurement approaches under the Basel II Framework, though we may not necessarily adopt the same for regulatory capital purposes.

Interest rate risk in the banking book (IRRBB)

The Bank applies a fund transfer pricing policy whereby all interest rate risk in the banking book is effectively transferred to the Asset and Liability Management ("ALM") desk of Global Markets for management, with ALCO oversight. VaR and stress results are used to assess the interest rate risk in the banking book as well.

The ALM uses derivatives, where necessary, to hedge the interest rate risk in the banking book whether or not hedge accounting is achieved. In particular, interest rate swaps are used to manage interest rate risk.

Refer Market risk in trading book section for more details on VaR methodology and its use.

The table below shows the extent to which the entity's interest rate exposures on assets and liabilities are matched.

Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

(Rs 000s)

	Three months or less	Between three and six months	Between six months and one year	Between one and five years	More than five years	Non Interest Sensitive	Total
Assets							
Cash & balances with RBI	-	-	-	-	-	46,310,960	46,310,960
Balances with other banks	4,748,658	-	-	-	-	5,625,192	10,373,850
Investments	7,790,722	31,224,901	35,519,595	45,049,161	8,107,740	180,458	127,872,577
Advances	126,433,988	22,883,710	20,005,746	115,390,815	48,800,997	-	333,515,256
Fixed assets	-	-	-	-	-	17,232,886	17,232,886
Other assets	-	-	-	-	-	199,146,910	199,146,910
Total assets	**138,973,368**	**54,108,611**	**55,525,341**	**160,439,976**	**56,908,737**	**268,496,406**	**734,452,439**
Liabilities	-	-	-	-	-	-	-
Deposits	142,002,700	83,558,237	18,095,242	8,381,763	150,645	117,376,636	369,565,223
Borrowings	64,071,010	5,505,360	401,200	-	-	-	69,977,570
Other liabilities and provisions	-	10,030,000	-	-	-	201,179,272	211,209,272
Total liabilities	**206,073,710**	**99,093,597**	**18,496,442**	**8,381,763**	**150,645**	**318,555,908**	**650,752,065**

Other risks

Liquidity Risk

We define liquidity risk as the risk that we either do not have sufficient financial resources available to meet all our obligations and commitments as they fall due, or can access them only at excessive cost.

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 *(Continued)*

It is the policy of our Group to maintain adequate liquidity at all times, in all geographical locations and for all currencies. Hence the Group aims to be in a position to meet all obligations, to repay depositors, to fulfill commitments to lend and to meet any other commitments.

Liquidity risk management is governed by Country ALCO, which is chaired by the CEO. Country ALCO is responsible for both statutory and prudential liquidity. These responsibilities are managed through the provision of authorities, policies and procedures that are co-ordinated by the Liquidity Management Committee ("LMC") with the support, guidance and oversight by Country ALCO and GALCO.

Country ALCO is responsible for ensuring that the country is self-sufficient and is able to meet all its obligations to make payments as they fall due. Country ALCO has primary responsibility for compliance with local regulations and Group policy and maintaining a country liquidity crisis contingency plan.

A substantial portion of the assets are funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. Lending is normally funded by liabilities in the same currency.

We also maintain significant levels of marketable securities either for compliance with local statutory requirements or as prudential investments of surplus funds.

There are internal limits and ratios for borrowing, capital etc and compliance with these ratios is monitored locally by Country ALCO and centrally by Group Treasury.

Compliance and Regulatory Risk

Compliance and Regulatory risk includes the risk of noncompliance with regulatory requirements both in-country regulator and home regulator. The Regional Compliance and Regulatory Risk function is responsible for implementing and monitoring of compliance with Group compliance policies and procedures established by the Group Compliance and Regulatory function and also responsible for establishing and maintaining local compliance framework. Compliance with such policies and procedures is the responsibility of all managers.

Legal Risk

Legal risk is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or other loss for the Group, failure to protect the title to and ability to control the rights to assets of the Group (including intellectual property rights), changes in the law or jurisdictional risk. The Group manages legal risk through the Group Legal Risk Committee, Legal Risk policies and procedures and effective use of its internal and external lawyers.

Reputational Risk

Reputational risk is any material adverse effect on the relations between the Group and any one of its significant stakeholders. It is Group policy that the protection of the Group's reputation should take priority over all activities including revenue generate on at all times.

Reputational risk is not a primary risk, but will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, legal and regulatory and operational risk. It may also arise from the failure to comply with Social, Environmental and Ethical standards. All staff are responsible for day to day identification and management of reputational risk.

At a country level, the Country CEO is responsible for the Group's reputation in their market. The Country CEO and their Management Committee must actively:

- promote awareness and application of the Group's policy and procedures regarding reputational risk;
- encourage business and functions to take account of the Group's reputation in all decision making, including dealings with customers and suppliers;
- implement effective functioning of the in country reporting system to ensure their management committee is alerted of all potential issues; and
- promote effective, proactive stakeholder management.

The Group Reputational Risk and Responsibility Committee ("GRRRC") has oversight responsibility in respect of the monitoring compliance with the above. A critical element of the role of the GRRRC is to act as radar for the Group in relation to the identification of emerging or thematic risks. The GRRRC also ensures that effective risk monitoring is in place for Reputational Risk and reviews mitigation plans for significant risks.

Monitoring

Monitoring of the risk management is achieved thru independent reviews and audits by Group Internal Audit, Business Risk Reviews and compliance assurance functions and also by concurrent audits, spot checks by the external specialists required under regulations. Group Internal Audit function that reports to the Group Chief Executive and the Group Audit & Risk Committee.