Risk review and disclosures under Basel II Framework for the year ended 31 March 2010

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 1,650 branches and offices in more than 70 countries and territories; and over 77,000 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 both, the London Stock Exchange and the Stock Exchange of Hong Kong (from June 2010 in India as well). 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, the Foundation Internal Ratings Based Approach and the Advanced Internal Ratings Based Approach (AIRB). Basel II also introduced capital requirements for operational risk 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 AIRB and Value at Risk (VaR) model for the measurement of credit risk and market risk capital respectively and applies The Standardised Approach for determining its operational risk capital requirements. In accordance with mandatory local regulations, SCBI has adopted standardised approaches for local regulatory Pillar 1 purposes and intends to apply to RBI to migrate to advanced approaches as and when permitted and where it is considered appropriate to do so.

During the initial years of Basel II implementation, the minimum capital requirements under Pillar 1 were restricted by reference to the Basel I framework, so they could not fall below 80% of the Basel I capital requirements as of March 2010. This restriction was due to expire at the end of March 2010, but the RBI has decided to retain this capital floor until further advice.

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 operational risk.

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 Group's 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 (CFS) 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 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 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. Ltd.	Fully owned subsidiary of Licensed Bank	Holding shares/debentures in limited companies on behalf of SCBI including those given as collaterals to SCBI against loans, advances and other facilities.	Private Limited Company incorporated under Indian Companies Act	Full
Standard Chartered Investments and 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	Full

Name of the entity	Status for regulatory purposes	Nature of business	Description of the entity	Type of consolidation
			RBI and categorised as non deposit taking systemically important NBFC.	
Standard Chartered STCI Capital Markets Limited (SC Caps)	Entity controlled by Licensed bank's Parent / Group	Rendering broking services, distribution of financial products and depository services	Limited Company incorporated under Indian Companies Act	74.9%

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 capital management approach 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 three year horizon and approved by the India Management Committee (MANCO) and the Group. These plans are underpinned by the Group / Bank's risk appetite and ensure that the forecast capital requirements are based on an explicit assessment of the overall risk profile. The plans also ensure that adequate levels of capital are maintained by the Bank to support its strategy. This is integrated with the Group / Bank's annual planning process which takes into consideration business growth assumptions across products and the related impact on capital ratios.

The capital plan takes the following into account:

- Regulatory capital requirements;
- Forecast demand for capital to maintain the internal trigger ratios;
- Demand for capital due to business growth, market stresses and potential risks; and
- Available supply of capital and capital raising options.

The Group / Bank uses internal models and other quantitative techniques in its internal risk and capital assessment. The models help to estimate potential future losses arising from credit, market and other risks, and hence, the amount of capital required to support them. In addition, the models enable the Bank to gain a deeper understanding of its risk profile, e.g., by identifying potential concentrations, assessing the impact of portfolio management actions and performing what-if analysis.

Stress testing and scenario analysis are used to ensure that the Group / Bank's internal capital assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events on the Bank and how these could be mitigated. The Bank's target levels are set taking into account its risk appetite and its risk profile under future expected and stressed economic scenarios.

The Bank's assessment of risk appetite is closely integrated with its strategy, business planning and capital assessment processes, and is used to inform senior management's views on the level of capital required to support the Bank's business activities.

The Group / Bank uses a model to assess the capital demand for material risks, and support its internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital model is a key part of the Group's management disciplines.

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 mitigants.

4.3 Governance and Target Setting

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

Regulatory capital (Pillar 1) ratios are, in general, managed to a trigger capital ratio of around 10% as against the regulatory minimum of 9%. However, during periods of unusual volatility in key variables impacting Risk Weighted Assets (RWA) or capital, the CMC / ALCO may in addition, set a Management Action Trigger above the 10% trigger ratio, to provide sufficient time for planning and undertaking mitigating / corrective actions.

Capital in branches and subsidiaries is maintained on the basis of host regulator's regulatory requirements. 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 the Group has sufficient capital available to meet local regulatory capital requirements at all times.

4.4 Mobility of Capital Resources

Taking into consideration that SCBI is a branch operation, as well as the current regulatory environment, its sources of capital are primarily profits generated locally and infusion of capital by Group Head Office (HO). Group policy requires all branches and subsidiaries to remit to HO all remittable profits. 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, trigger ratio and other relevant factors.

4.5 Capital Structure

Tier 1 capital mainly comprises of:

i) Capital funds injected by HO.
ii) Percentage of 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.

All of these funds are not repatriable / distributable to HO as long as the Bank operates in India. Also, no interest is payable on these funds.

Tier 2 capital mainly comprises of:

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 as per the RBI regulations.
iii) 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 Risk Weighted Assets

(Rs. in 000s)

	31.3.2010		
	Solo Bank*		Consolidated Bank*
	Basel II	Basel I	Basel II
Tier 1 Capital :	**80,367,722**	**80,783,434**	**85,141,025**
Head Office capital	6,757,992	6,757,992	6,757,992
Paid-up capital of subsidiaries / associates	-	-	4,864,936
Eligible reserves	81,022,441	81,022,441	81,405,795
Intangible assets	(4,275,333)	(4,275,333)	(4,475,469)
Unconsolidated subsidiaries / associates	(50)	(50)	(50)
Other regulatory adjustments	(3,137,328)	(2,721,616)	(3,412,179)
Tier 2 Capital :	**31,148,937**	**31,564,648**	**31,148,937**
Eligible revaluation reserves	5,545,934	5,545,934	5,545,934

	31.3.2010		
	Solo Bank*		Consolidated Bank*
	Basel II	Basel I	Basel II
General provision	4,521,050	4,521,050	4,521,050
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)	24,450,000	24,450,000	24,450,000
Less: Amortisation of qualifying subordinated debts	(2,000,000)	(2,000,000)	(2,000,000)
Other regulatory adjustments	(1,368,047)	(952,286)	(1,368,047)
Total Capital Base	**111,516,659**	**112,348,082**	**116,289,962**
Minimum Regulatory Capital Requirements			
Credit Risk	**55,799,696**	**49,427,532**	**56,397,099**
Standardised approach portfolios	55,790,954	-	56,388,357
Securitisation exposures	8,742	-	8,742
Market Risk - Standardised Duration Approach	**17,557,128**	**18,861,869**	**17,566,662**
Interest rate risk	2,317,165	3,827,679	2,317,165
Foreign exchange risk (including gold)	360,000	360,000	360,000
Equity Risk	28,442	28,442	37,976
Counterparty/settlement risks	14,851,521	14,645,748	14,851,521
Operational Risk – Basic Indicator Approach	**7,496,101**	**-**	**7,757,753**
Total Minimum Regulatory Capital Requirements	**80,852,925**	**68,289,401**	**81,721,514**
Risk Weighted Assets and Contingents :			
Credit Risk	619,996,618	549,194,805	626,634,438
Market Risk (including counterparty/settlement risks)	195,079,194	209,576,317	195,185,132
Operational Risk – Basic Indicator Approach	83,290,015	-	86,197,257
Total Risk Weighted Assets and Contingents	**898,365,827**	**758,771,122**	**908,016,827**
Capital Ratios			
Tier 1 Capital	8.94%	10.65%	9.38%
Tier 2 Capital	3.47%	4.16%	3.43%
Total Capital	**12.41%**	**14.81%**	**12.81%**

(Rs. in 000s)

	31.3.2009		
	Solo Bank*		Consolidated Bank*
	Basel II	Basel I	Basel II
Tier 1 Capital:	**77,998,143**	**78,720,505**	**83,112,453**
Head Office capital	6,757,992	6,757,992	6,757,992
Paid-up capital of subsidiaries / associates	-	-	4,936,843
Eligible reserves	75,698,038	75,698,038	76,284,476
Intangible assets	(3,410,301)	(3,410,301)	(3,431,372)
Unconsolidated subsidiaries/associates	(50)	(50)	(50)
Other regulatory adjustments	(1,047,536)	(325,174)	(1,435,436)
Tier 2 Capital :	**34,788,178**	**35,510,540**	**34,788,178**
Eligible revaluation reserves	5,548,984	5,548,984	5,548,984
General provision	4,521,050	4,521,050	4,521,050

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	31.3.2009		
	Solo Bank*		Consolidated Bank*
	Basel II	Basel I	Basel II
Debt capital instruments eligible to be reckoned as capital funds and included in Lower Tier 2 (of which amount raised during the year Rs. 12,680,000)	29,310,000	29,310,000	29,310,000
Less: Amortisation of qualifying subordinated debts	(3,550,000)	(3,550,000)	(3,550,000)
Other regulatory adjustments	(1,041,856)	(319,494)	(1,041,856)
Total Capital Base	**112,786,321**	**114,231,045**	**117,900,631**
Minimum Regulatory Capital Requirements :			
Credit Risk	**51,735,289**	**46,532,732**	**52,521,238**
Standardised approach portfolios	51,735,289	-	55,521,238
Securitisation exposures	-	-	
Market Risk	**30,369,423**	**30,790,415**	**30,408,018**
Interest rate risk	8,230,823	7,790,887	8,230,823
Foreign exchange risk (including gold)	315,000	315,000	315,000
Equity risk	50,595	50,595	89,190
Counterparty/settlement risks	21,773,005	22,633,933	21,773,005
Operational Risk –Basic Indicator Approach	**5,740,815**	**-**	**6,248,783**
Total Minimum Regulatory Capital Requirements	**87,845,527**	**77,323,147**	**89,178,039**
Risk Weighted Assets and Contingents :			
Credit Risk	574,836,548	517,030,354	583,569,315
Market Risk (including counterparty/settlement risks)	337,438,031	342,115,722	337,866,859
Operational Risk – Basic Indicator Approach	63,786,828	-	69,430,926
Total Risk Weighted Assets and contingents	**976,061,407**	**859,146,076**	**990,867,100**
Capital Ratios			
Tier 1 Capital	7.99%	9.16%	8.39%
Tier 2 Capital	3.57%	4.14%	3.51%
Total Capital	**11.56%**	**13.30%**	**11.90%**

* Solo bank represents the main licensed bank of the Group in India and consolidated bank 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, country, market, liquidity, operational, regulatory, pension, reputational and other risks; which are inherent to the Bank's 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.

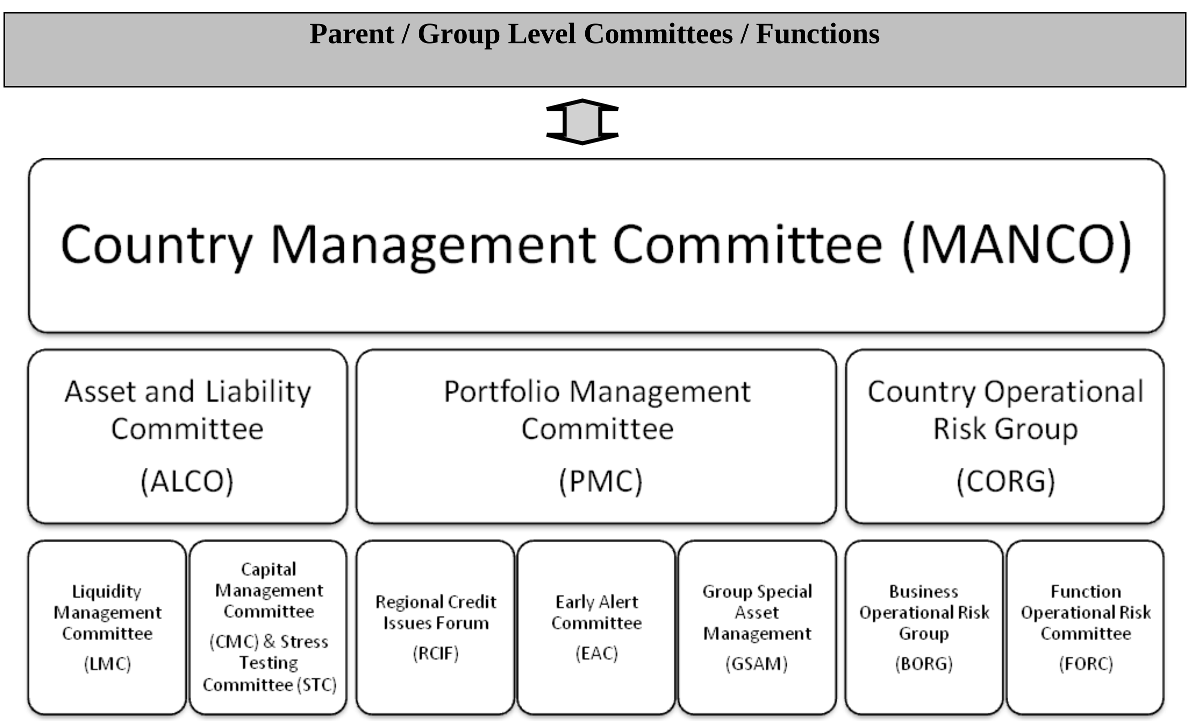
Through the RMF the Group / Bank manages enterprise-wide risks, with the objective of maximising risk-adjusted returns, while remaining within its risk appetite.

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

- Balancing risk and reward: risk is taken in support of the requirements of the stakeholders, in line with the Group / Bank's strategy and within its risk appetite;
- Responsibility: it is the responsibility of all employees to ensure that risk taking is disciplined and focused. The Group / Bank 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: seek to anticipate future risks and to maximise awareness of all risks; and
- Competitive advantage: seek competitive advantage through efficient and effective risk management and control.

5.2 Risk Governance

The diagram below illustrates the high level risk committee structure.



Ultimate responsibility for the effective governance of the Indian operations, including risk governance, rests with the MANCO, headed by the Country Chief Executive Officer (CEO). MANCO's composition includes the functional heads for business, control and support functions in India. It is responsible for the governance of the Bank in India, including, compliance with all local laws and regulations, internal policies and processes and external standards mandated by the Group, and effective cooperation and coordination between the main businesses of the Bank in India. The MANCO constitutes of senior bankers who are well qualified, experienced and competent individuals and are well acknowledged in their respective fields.

The governance structure of the Indian operations also reflects the 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 ALCO, the PMC and the CORG.

ALCO membership consists of the CEO and business heads of various parts of the Bank viz. Corporate Bank, Consumer Bank, Treasury, Chief Operating Officer, Country Chief Risk Officer (CCRO), Chief Financial Officer (CFO) and the head of ALM. The committee is chaired by the CEO. ALCO is responsible for the establishment of and compliance with policies relating to balance sheet management including liquidity and capital adequacy management. 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, ALM and the businesses. CMC is also a sub-committee of ALCO created to manage capital. It is chaired by the CFO and draws its members from finance, risk and the businesses. STC is chaired by the CCRO and comprises members from risk and finance, along with the economist.

PMC membership consists of the CEO, business heads, credit risk heads, economist and head of GSAM. 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, CCRO, business heads, support functions heads and Country Operational Risk Officer (CORO). It provides a forum for the identification, assessment, mitigation and subsequent monitoring of country level operational risk trends and issues. It is responsible for providing assurance to the MANCO and the Group Risk Committee that the Operational Risk Management and Assurance Framework is operating effectively in the country and that key risks are being managed.

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

The CCRO manages the risk function which is independent of the businesses and which:

- Recommends implementation of Group standards and policies where appropriate against local regulation for risk measurement and management;
- Monitors and reports Group risk exposures for country, credit, operational and market risks;
- Acts as the key point of contact for all risk related regulatory queries/issues;
- Ensures risk appetite strategy is appropriate; and
- Provides oversight for the setting of risk limits and monitoring exposures against risk limits.

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 risks in line with agreed appetite levels.
- Developing and maintaining an appropriate risk management infrastructure and systems to facilitate compliance with risk policies.

Before embarking on new activities or introducing products new to the bank, the changes in firm-wide risks arising from these potential new products or activities are identified and reviewed and relevant infrastructure and internal controls necessary to manage the related risks are put in place. This process is managed through Product Programme Guide (PPG), Country Addendum (CA) or Transaction Processing Authorisation (TPA) requirements.

Overall risk governance refers to those parts of the Bank's governance mechanisms that relate to risk management and control. Risk governance is exercised through the decision making authority vested in individual managers and committees. The committees are also mechanisms to ensure that relevant stakeholders are properly informed about the risks in the Bank and have the opportunity to request and challenge information relating to those risks.

The Risk function is responsible for upholding 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 the Group's standards.

The Risk function is independent of the origination 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 revenues are recognised immediately while losses arising from risk positions only manifest themselves over time.

The Risk function is also responsible for maintaining the Group's RMF, ensuring it remains appropriate to the Group / Bank's activities and is effectively communicated and implemented across the Bank. The Risk function also administers risk-related governance and reporting processes.

The RMF identifies the risk types to which the Group / Bank is exposed, each of which is controlled by a designated risk control owner. The major risk types are described individually in the following sections. The risk control owners have responsibility for establishing minimum standards and for implementing governance and assurance processes.

The Country Assurance and Group Internal Audit (GIA) provide assurance, independent from the businesses, that risk is being measured and managed in accordance with the Group / Bank's standards and policies. GIA is a separate Group function that provides independent confirmation of compliance with Group and business standards, policies and procedures. Where necessary, it recommends corrective action to restore or maintain such standards.

5.3 Risk Appetite

The Group / Bank manages risks to build a sustainable franchise in the interests of all stakeholders. Risk appetite is an expression of the amount of risk the Group / Bank 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.

The Group / Bank defines risk appetite in terms of both volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. The Group / Bank also defines risk appetite with respect to liquidity risks and reputational risk.

The Bank's quantitative risk profile is assessed through a 'bottom up' analytical approach covering all of the Bank's major businesses and products. The risk appetite is approved by the MANCO and Group Risk Committee (GRC) and forms the basis for establishing the risk parameters within which businesses must operate, including, policies, concentration limits and business mix.

5.4 Stress Testing

Stress testing and scenario 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 / Bank has a stress testing framework 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 of the results from stress tests and scenario analysis; and
- Ensure adherence to regulatory requirements.

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

In 2009, stress testing activity was intensified at country, business and Group levels, with specific focus on certain asset classes, customer segments and the potential impact of macro economic factors. These stress tests have taken into consideration possible future scenarios that could arise as a result of the development of prevalent market conditions. Stress testing themes such as inflation, US dollar depreciation, swine flu, or potential border conflicts are coordinated by the STF to ensure consistency of impacts on different risk types or countries.

The India STC leverages on work done by Group and, in addition, develops scenarios specific to the local context, including for ICAAP.

6. Credit Risk

Credit risk is the risk that the counterparty to a financial transaction will fail to discharge an obligation, resulting in financial loss to the Bank. Credit exposures may arise from both, the banking book and the trading book.

Credit risk is managed through a framework which 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 the 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 that are 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). 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 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. 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 though there is some logical mapping. The Bank's 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 the internal credit grades.

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 / country level credit committee. All the credit facilities are subject to an annual credit review process.

SCB'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 (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 (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 (DSR) 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 AIRB 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 AIRB 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, corporate accounts or portfolios are placed on 'Early Alert' when they display signs of weakness or financial deterioration, for example, where there is a decline in the customer's position 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 subjected to a dedicated process overseen by GSAM, the specialist recovery unit. Account plans are reevaluated and 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.

In CB, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and impacts 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 Enterprise (SME) business is managed within CB in two distinct segments: small businesses, and medium enterprises, differentiated by the annual turnover of the counterparty. Medium enterprise accounts are monitored in line with WB procedures, while small business accounts are monitored in line with other CB accounts.

6.5 Concentration Risk

Credit concentration risk is managed within concentration caps set by counterparty or groups of connected counterparties and industry sector in WB; and by product in CB. Additional targets are set and monitored for concentrations by internal credit rating.

Credit concentrations are monitored by the responsible portfolio risk committees in each of the businesses and concentration limits that are material to the Group are reviewed and approved at least annually by the GCC.

Single Borrowing Limit (SBL) and Group Borrowing Limit (GBL) are monitored as per RBI guidelines.

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 target 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 AIRB 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. AIRB portfolio metrics are widely used in these reports. Regular portfolio risk reports are made available at senior management committee meetings, including GRC and functional business and country level risk committees.

Risk measurement models are approved by the responsible risk committee, on the recommendation of the Group Model Assessment Committee (MAC). The MAC supports risk committees in ensuring risk identification and measurement capabilities are objective and consistent, so that risk control and risk origination decisions are properly informed. Prior to review by the MAC, all AIRB models are validated in detail by a model validation team, which is separate from the teams which develop and maintain the models. Models undergo a detailed annual review. Such reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process.

6.7 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 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 PMC on a quarterly basis.

Wholesale Banking

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.

The provisioning policy is in accordance with the RBI guidelines. Where an amount is considered uncollectable, a specific provision is raised. In any decision relating to the raising of provisions, the Bank attempts 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.

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 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 adheres to the minimum provisions required under the RBI guidelines. In case of unsecured products, outstanding balances are generally written off at 150 days past due or full provisions are created.

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 and Category of Exposures	Credit Risk Exposures 31.3.2010	31.3. 2009
Inter-bank exposures	9,790,003	17,011,991
Investments (HTM)	872,655	7,411,726
Advances	423,938,376	379,299,284
Total gross fund based exposures	**434,601,034**	**403,723,001**
Specific provisions / Provisions for depreciation in the value of investment[1]	(4,338,877)	(4,139,086)
Total net fund based exposures	**430,262,157**	**399,583,915**
Fx and derivative contracts	396,267,443	596,181,469
Guarantees, acceptances, endorsements and other obligations	205,493,441	207,763,483
Other commitments and credit Lines[2]	74,462,711	80,714,433
Total gross non-fund based exposures[3]	**676,223,595**	**884,659,385**
Specific Provisions	(737)	(737)
Total net non-fund based exposures	**676,222,858**	**884,658,648**

[1] Excluding floating provision (Refer note 18(D)(2)) and provision on restructured 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	31.3.2010 Credit risk exposures			31.3.2009 Credit risk exposures		
	Fund based	Non fund based	Total	Fund based	Non fund based	Total
Loans to individuals						
- Mortgages	87,249,003	-	87,249,003	66,037,194	-	66,037,194
- Small & Medium Enterprises	59,548,680	9,481,314	69,029,994	54,151,658	6,252,499	60,404,157
- Other	23,333,001	1,328,508	24,661,509	32,819,128	-	32,819,128
Consumer Banking	**170,130,684**	**10,809,822**	**180,940,506**	**153,007,980**	**6,252,499**	**159,260,479**
Coal	872,393	678,597	1,550,990	1,208,673	852,795	2,061,468
Mining	779,590	275,063	1,054,653	4,834,660	1,111,726	5,946,386
Iron and Steel	3,933,301	10,148,356	14,081,657	4,127,682	8,551,893	12,679,575
Other Metals and Metal Products	13,134,356	9,146,427	22,280,783	12,857,030	14,527,383	27,384,413
All Engineering	15,339,725	36,654,014	51,993,739	20,860,642	36,886,754	57,747,396
Of which :						
-Electronics	*3,454,417*	*16,949,368*	*20,403,785*	*6,624,382*	*12,381,457*	*19,005,839*
Cotton Textiles	561,591	100	561,691	48,579	-	48,579
Other Textiles	8,501,827	1,933,807	10,435,634	9,291,766	2,461,708	11,753,474
Sugar	4,394	3,334,106	3,338,500	96,688	1,894,733	1,991,421
Tea	-	153,959	153,959	4,450	254,325	258,775
Food Processing	11,871,324	2,371,482	14,242,806	12,198,780	239,563	12,438,343
Vegetables Oils (including Vanaspati)	1,843,528	5,905,237	7,748,765	666,920	3,172,139	3,839,059
Tobacco and Tobacco Products	699,416	480,731	1,180,147	673,318	366,898	1,040,216
Paper and Paper Products	1,518,253	858,390	2,376,643	1,785,937	1,269,469	3,055,406
Rubber and Rubber Products	2,353,566	3,421,063	5,774,629	1,688,560	2,342,901	4,031,461
Chemicals, Dyes, Paints	19,370,103	11,606,924	30,977,027	23,178,703	16,699,548	39,878,251
Of which:						
-Fertilizers	*290,580*	*2,169,649*	*2,460,229*	*345,875*	*2,516,838*	*2,862,713*
-Petro-chemicals	*4,579,303*	*3,383,699*	*7,963,002*	*5,149,976*	*5,026,740*	*10,176,716*
-Drugs and Pharmaceuticals	*10,309,790*	*1,904,793*	*12,214,583*	*10,713,248*	*3,455,763*	*14,169,011*
Cement	4,337,773	1,585,629	5,923,402	9,737,944	2,765,646	12,503,590
Leather and Leather Products	545,154	80,555	625,709	416,431	125,531	541,962
Gems and Jewellery	4,726,645	3,452,935	8,179,580	152,970	1,212,208	1,365,178
Constructions	7,564,574	19,528,764	27,093,338	5,836,496	22,321,993	28,158,489
Petroleum	12,688,223	8,184,174	20,872,397	76,387	12,699,155	12,775,542
Automobiles including Trucks	8,583,912	7,178,650	15,762,562	9,522,268	10,469,152	19,991,420
Computer Software	11,192,606	7,763,142	18,955,748	4,356,883	6,473,275	10,830,158
Infrastructure	27,377,897	41,725,580	69,103,477	22,050,290	39,018,459	61,068,749
Of which:						
-Power	*1,255,763*	*2,364,953*	*3,620,716*	*805,268*	*2,377,558*	*3,182,826*
-Telecommunications	*13,030,871*	*17,439,233*	*30,470,104*	*3,251,800*	*16,662,053*	*19,913,853*
-Roads and Ports	*9,725,805*	*21,921,394*	*31,647,199*	*17,993,223*	*19,978,849*	*37,972,072*
Other Industries	18,323,524	26,988,962	45,312,486	19,769,754	78,466,822	98,236,576
NBFC and Trading	57,642,408	67,617,137	125,259,545	42,676,696	13,912,567	56,589,263
Residual advances	20,041,609	3,701,921	23,743,530	18,172,797	4,538,299	22,711,096
Wholesale Banking	**253,807,692**	**274,775,705**	**528,583,397**	**226,291,304**	**282,634,942**	**508,926,246**
Specific provisions	(4,338,877)	(737)	(4,339,614)	(4,139,086)	(737)	(4,139,823)
Total Net Advances	**419,599,499**	**285,584,790**	**705,184,289**	**375,160,198**	**288,886,704**	**664,046,902**
Total Inter-bank exposures	9,790,003	-	9,790,003	17,011,991	-	17,011,991
Total investments (HTM)	872,655	-	872,655	7,411,726	-	7,411,726

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 2010 (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	Total Assets
1day (d)	12,331,553	6,292,753	46,074,953	8,126,526	-	10,686,934	**83,512,719**
2d-7d	937,019	193,100	15,846,556	20,664,765	-	3,280,575	**40,922,015**
8d - 14d	1,430,922	186,400	6,601,045	24,754,284	-	1,463,775	**34,436,426**
15d - 28d	1,869,268	1,380,100	9,493,265	20,161,686	-	7,291,041	**40,195,360**
29d - 3month (m)	6,751,251	1,737,650	29,600,143	62,288,283	-	42,422,756	**142,800,083**
3m - 6m	2,236,985	-	9,726,023	62,550,654	-	28,623,733	**103,137,395**
6m - 1year (y)	2,252,790	-	20,400,681	39,409,221	-	25,115,945	**87,178,637**
1y - 3y	8,669,334	-	41,733,512	78,911,597	-	48,631,881	**177,946,324**
3y - 5y	145,306	-	2,159,495	23,424,831	-	34,164,229	**59,893,861**
> 5y	1,391,902	-	2,498,856	75,229,667	24,862,855	20,800,534	**124,783,814**
Total	**38,016,330**	**9,790,003**	**184,134,529**	**415,521,514**	**24,862,855**	**222,481,403**	**894,806,634**

As at 31 March 2009 (Rs. in 000s)

Assets	Cash and Bank balances with RBI	Balances with Banks and money at call and short notice	Investments	Advances	Fixed Assets	Other Assets	Total Assets
1d	6,058,512	13,952,391	40,006,174	5,877,233	-	7,868,070	**73,762,380**
2d-7d	1,232,021	154,500	7,408,741	24,933,438	-	5,737,871	**39,466,571**
8d - 14d	1,572,196	214,500	8,432,206	31,038,280	-	1,635,522	**42,892,704**
15d - 28d	1,118,295	466,600	7,784,572	25,507,765	-	5,194,471	**40,071,704**
29d - 3m	4,118,311	2,224,000	22,887,915	55,140,918	-	99,061,707	**183,432,851**
3m - 6m	1,318,180	-	7,069,834	40,767,925	-	70,842,682	**119,998,621**
6m - 1y	1,959,155	-	17,096,493	28,379,635	-	39,779,567	**87,214,850**
1y - 3y	6,558,895	-	36,695,146	83,394,299	-	78,627,916	**205,276,256**
3y - 5y	23,241	-	143,276	23,408,459	-	49,284,897	**72,859,873**
> 5y	1,224,279	-	6,776,850	56,443,329	23,475,480	20,542,576	**108,462,512**
Total	**25,183,085**	**17,011,991**	**154,301,207**	**374,891,281**	**23,475,480**	**378,575,279**	**973,438,321**

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)

	31.3.2010	31.3.2009
Substandard	7,495,737	6,643,660
Doubtful	1,337,158	1,809,140
-Doubtful 1	390,212	221,877
-Doubtful 2	941,088	1,524,568
-Doubtful 3	5,858	62,695
Loss	2,123,100	827,176
Gross NPAs	10,955,995	9,279,976
Provisions	(5,151,120)	(4,139,086)
Net NPAs	5,804,875	5,140,890
Cover Ratio	47.02%	44.60%

f) NPA Ratios

	31.3.2010	31.3.2009
Gross NPAs to gross advances	2.60%	2.45%
Net NPAs to net advances	1.40%	1.37%

g) Movement of NPAs

(Rs. in 000s)

	31.3.2010		31.3.2009	
	Gross	Net	Gross	Net
Balance, beginning of the year	9,279,976	5,140,890	6,132,177	3,453,753
Additions during the year	7,331,719	4,452,256	6,461,678	3,830,079
Reductions during the year	(5,655,700)	(3,788,271)	(3,313,879)	(2,142,942)
Balance, end of the year	**10,955,995**	**5,804,875**	**9,279,976**	**5,140,890**

h) Movement of provisions for NPAs

(Rs. in 000s)

	31.3.2010	31.3.2009
Balance, beginning of the year	4,139,086	2,678,424
Add : Provisions made during the year	2,879,463	2,631,599
Less : Utilisation / writeback of provisions no longer required	(1,867,429)	(1,170,937)
Balance, end of the year	**5,151,120**	**4,139,086**

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

(Rs. in 000s)

	31.3.2010	31.3.2009
Balance, beginning of the year	48,821	37,292
Additions during the year	8,000	14,529
Reductions during the year	(12,000)	(3,000)
Balance, end of the year	44,821	48,821
Total provisions held at the end of the year	**44,821**	**48,821**

j) Movement of provisions for depreciation on investments

(Rs. in 000s)

	31.3.2010	31.3.2009
Balance, beginning of the year	245,158	2,751,910
Add : Provisions made during the year	3,551,550	49,768
Less : Utilisation/Writeback of provisions no longer required	(70,010)	(2,556,520)
Balance, end of the year	**3,726,698**	**245,158**

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 standardised approach for measurement of credit risk. The risk weights applied under the standardised approach 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 2010 (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	9,790,003	-	9,790,003	9,790,003	-	-	-
Investments (HTM)	872,655	-	872,655	-	872,655	-	-
Advances	423,938,376	(4,857,147)	419,081,229	85,798,123	305,522,920	27,760,186	-
Total fund based exposures	**434,601,034**	**(4,857,147)**	**429,743,887**	**95,588,126**	**306,395,575**	**27,760,186**	**-**
Fx and derivative contracts	396,267,443	-	396,267,443	309,230,697	86,978,240	58,506	-
Guarantees, acceptances, endorsements and other obligations	205,493,441	(275,599)	205,217,842	86,520,966	113,541,518	3,826,850	1,328,508
Undrawn commitments and others	74,462,711	(51,764,226)	22,698,485	1,214,539	21,450,296	33,650	-
Total non-fund based exposures	**676,223,595**	**(52,039,825)**	**624,183,770**	**396,966,202**	**221,970,054**	**3,919,006**	**1,328,508**

As at 31 March 2009 (Rs. in 000s)

Nature & category of exposures	Total gross credit exposure	Credit risk mitigation	Net exposure	Credit risk weight buckets summary			
				< 100%	100%	> 100%	Deduction from capital
Inter bank exposures	17,011,991	-	17,011,991	17,011,991	-	-	-
Investments (HTM)	7,411,726	-	7,411,726	801,008	6,610,718	-	-
Advances	379,299,284	(1,156,281)	378,143,003	94,262,704	245,490,026	38,390,273	-
Total fund based exposures	**403,723,001**	**(1,156,281)**	**402,566,720**	**112,075,703**	**252,100,744**	**38,390,273**	**-**
Fx and derivative contracts	596,181,469	-	596,181,469	470,464,721	124,853,434	863,314	-
Guarantees, Acceptances, endorsements and other obligations	207,763,483	(145,415)	207,618,068	112,898,112	91,198,193	2,193,255	1,328,508
Undrawn Commitments and others	80,714,433	(39,946,208)	40,768,225	4,128,151	36,557,206	82,868	-
Total non fund based exposures	**884,659,385**	**(40,091,623)**	**844,567,762**	**587,490,984**	**252,608,833**	**3,139,437**	**1,328,508**

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, credit insurance 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. Collateral is valued in accordance with the risk mitigation policy, which prescribes the frequency of valuation for different collateral types, based on 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. 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.

However, from a local regulatory perspective, the main "eligible" collaterals under the standardised approach are restricted to cash (including fixed deposits) and units of mutual funds. These are mainly collateral against retail loans.

Guarantees taken can be categorised 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.

(Rs. in 000s)

	31.3.2010
Exposure covered by eligible financial collateral after application of haircuts	7,446,708
Exposure covered by guarantees	1,698,079

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 standardised approach 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).

<u>Quantitative Disclosures</u>

1. Banking Book

1.1 The outstanding exposures securitised by the Bank as on 31 March 2010: Rs. (000s) 6,239,897.

1.2 Securitisation losses recognised by the Bank during 2009-10

(Rs. in 000s)

Exposure Type	Underlying Security	Losses
Personal Loans (sale without recourse)	-	2,235

1.3 Assets intended to be securitised within a year - NIL.

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

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

As at 31 March 2010 (Rs. in 000s)

Exposure Type	Outstanding	Unrecognised gain /(loss)
Housing Loans	6,239,897	1,763

1.5 Securitisation exposures retained or purchased

As at 31 March 2010 (Rs. in 000s)

Exposure Type	On Balance Sheet	Off Balance Sheet
Housing Loans	755,104	1,328,508
Vehicle Loans	-	386,587
Total	**755,104**	**1,715,095**

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

As at 31 March 2010 (Rs. in 000s)

Exposure Type	<100% risk weight	100% risk weight	>100% risk weight	Total
Vehicle Loans	386,587	-	-	386,587
Capital Charge	8,742	-	-	8,742

1.7 Securitisation exposures deducted from capital

As at 31 March 2010 (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

2. Trading Book

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

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

As at 31 March 2010 (Rs. in 000s)

Exposure Type	On Balance Sheet	Off Balance Sheet
Vehicle Loans	10,307,060	-

2.3 Securitisation exposures retained or purchased

As at 31 March 2010 (Rs. in 000s)

	Total
Exposures subject to Comprehensive Risk Measure for specific risk	10,307,060

	<100% risk weight	100% risk weight	>100% risk weight	Total
Exposures subject to the securitisation framework for specific risk	9,671,562	-	-	9,671,562

2.4 Aggregate amount of the capital requirements for the securitisation exposures

As at 31 March 2010 (Rs. in 000s)

Risk Weight Bands	Capital Requirement
<100% risk weight	881,384
100% risk weight	-
>100% risk weight	-
Total	**881,384**

2.5 Securitisation exposures deducted from capital

As at 31 March 2010 (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
Vehicle Loans	-	-	652,383

7. Market Risk

This section should be read in conjunction with the section on Risk exposures in derivatives in note 18(E)(4)(xxi)(a), (b) and (c) of the financial statements.

The Bank recognises market risk as the risk of loss resulting from changes in market prices and rates. 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 arising from changes in yield curves and credit spreads;
- Currency exchange rate risk arising from changes in exchange rates and implied volatilities on foreign exchange options; and
- Equity price risk arising from changes in the prices of equities and equity indices.

7.1 Market Risk Governance

The GRC approves the Group's market risk appetite taking account of market volatility, the range of traded products and asset classes, the business volumes and transaction sizes. The Group Market Risk Committee (GMRC) is responsible, under authority delegated by the GRC, for setting VaR limits at a business level and recommends Group level VaR and stress loss limits for market risk. 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.

Limits by 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 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.

7.2 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 which applies recent historic market conditions to estimate 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%. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The Bank uses historic simulation as its VaR methodology with an observation period of one year. Historic simulation involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.

VaR is calculated as the Bank's exposure as at the close of business. Intra-day risk levels may vary from those reported at the end of day.

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. Back testing is also conducted against clean hypothetical profit and loss, which is the clean profit and loss that would have occurred for a given business day, if the portfolio on which the VaR number for that business day is based remained unchanged.

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.

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

Regular stress test scenarios are applied to each interest rates, credit spreads, exchange rates, commodity prices and equity prices. This covers all asset classes in the Financial Markets banking and trading books. Ad hoc scenarios are also prepared, reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

7.3 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.

7.4 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.

7.5 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.

The 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.

The Bank enters into derivative contracts in the normal course of business to meet customer requirements and to manage its 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.

The Bank applies the future exposure methodology to manage counterparty credit exposure associated with derivative transactions.

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 Financial Markets 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.

The table below shows the extent to which the Bank'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.

As at 31 March 2010 (Rs. in 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 and balances with RBI	-	-	-	-	-	38,016,330	38,016,330
Balances with other banks	3,497,250	-	-	-	-	6,292,753	9,790,003
Investments	31,236,957	54,336,068	54,889,810	32,392,337	11,745,393	173,658	184,774,223
Advances	135,995,545	62,550,654	39,409,221	102,336,428	75,229,666	-	415,521,514
Fixed Assets	-	-	-	-	-	24,862,855	24,862,855
Other Assets	-	-	-	-	-	222,481,403	222,481,403
Total Assets	**170,729,752**	**116,886,722**	**94,299,031**	**134,728,765**	**86,975,059**	**291,826,999**	**895,446,328**
Liabilities							
Deposits	167,857,361	94,568,580	41,879,485	17,321,146	150,001	160,147,282	481,923,855
Borrowings	49,024,408	31,690,536	-	6,500,000	-	-	87,214,944
Other liabilities and provisions	-	-	-	-	-	210,250,038	210,250,038
Total Liabilities	**216,881,769**	**126,259,116**	**41,879,485**	**23,821,146**	**150,001**	**370,397,320**	**779,388,837**

As at 31 March 2009 (Rs. in 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	-	-	-	-	-	25,183,085	**25,183,085**
Balances with other banks	3,059,600	-	-	-	-	13,952,391	**17,011,991**
Investments	55,679,929	3,613,055	49,230,353	40,372,107	6,442,509	177,658	**155,515,611**
Advances	142,497,636	40,767,925	28,379,635	106,802,758	56,443,327	-	**374,891,281**
Fixed assets	-	-	-	-	-	23,475,480	**23,475,480**
Other assets	-	-	-	-	-	378,575,279	**378,575,279**
Total assets	**201,237,165**	**44,380,980**	**77,609,988**	**147,174,865**	**62,885,836**	**441,363,893**	**974,652,727**
Liabilities							
Deposits	164,008,030	77,715,208	46,546,206	8,709,205	150,134	120,888,877	**418,017,660**
Borrowings	70,081,452	20,004,480	1,950,000	3,500,000	-	-	**95,535,932**
Other liabilities and provisions	-	-	-	-	-	358,331,046	**358,331,046**
Total liabilities	**234,089,482**	**97,719,688**	**48,496,206**	**12,209,205**	**150,134**	**479,219,923**	**871,884,638**

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

As at 31 March 2010 (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	1,324,607	(1,324,607)
USD	69,201	(69,201)
EUR	(12,912)	12,912
GBP	(105,620)	105,620
JPY	(35,272)	35,272
Total	**1,240,004**	**(1,240,004)**

9. Operational Risk

Operational risk (OR) is the risk of direct or indirect loss due to an event or action resulting from inadequate or failed internal processes, people and systems, or from external events. OR exposures arise as a result of business activities. It is the Bank's objective to minimise such exposures, subject to cost tradeoffs. This objective is met through a framework of policies and procedures that drive risk identification, assessment, control and monitoring.

Governance over OR management is achieved through a defined structure of committees at the Group, business, function and country level. The Group OR Committee (GORC), a subcommittee of the GRC, supervises the management of OR across all businesses and functions. Escalation rules, linked to risk tolerance limits, are in place to ensure that OR decisions are taken at the right level within the governance structure.

Responsibility for the management of OR rests with business and function management as an integral component of the management task. An independent OR function within the Risk function works alongside them to ensure that exposure to OR remains within acceptable levels.

The Group / Bank's OR management procedures and processes are integral components of the broader RMF. Operational risks are managed through an end to end process of identification, assessment, control and monitoring. This four step management process is performed at all levels across the Group / Bank and is the foundation of the management approach. Once identified, risks are assessed against standard criteria to determine their significance and the degree of risk mitigation effort required to reduce the exposure to acceptable levels. Risk mitigation plans are overseen by the appropriate governance committee.

Independent assurance reviews provide management and governance bodies with confirmation that the risk management standards and controls are being adhered to. These reviews are conducted by specialist control functions with support of an independent assurance function. The Group's audit function conducts regular audits of assurance activities.

In line with the Group risk management framework, there are three lines of assurance defined in India, whereby the business/function is the 1st line, Country Assurance is the 2nd line and GIA is the 3rd line. The Country Assurance function, independent from the businesses, is responsible for assuring that the OR management framework is adhered to.

At country level, CORG committees have the responsibility and oversight of OR issues. The monthly CORG process ensures that operational risks, losses and results of assurance reviews are reviewed and appropriate mitigating actions are initiated to enhance the control environment. OR in the businesses are reviewed by the business operational risk committees which escalate significant issues / views to the CORG, business risk committees and the GORC depending on the materiality of the identified risk / issue.

As mandated by the RBI, the Bank uses the Basic Indicator Approach to assess its local regulatory capital requirements for OR.

10. OTHER KEY RISKS

10.1 Liquidity Risk

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

It is the policy of the Bank to maintain adequate liquidity at all times and hence to be in a position to meet all obligations as they fall due. The Bank manages liquidity risk both on a short-term and medium-term basis. In the short-term, the focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and wholesale funding where required.

The GALCO is the responsible governing body that approves the Group's liquidity management policies. The Group Liquidity Management Committee ("LMC") receives authority from the

GALCO and is responsible for setting liquidity limits, and proposing liquidity risk policies and practices. Liquidity in each country is managed by the Country ALCO within the pre-defined liquidity limits set by the Group LMC and in compliance with Group liquidity policies and local regulatory requirements. The Group Treasury and Group Market Risk functions propose and oversee the implementation of policies and other controls relating to the above risks.

The Bank seeks to manage its liquidity prudently for all currencies. Exceptional market events can impact the Bank adversely, thereby affecting the Bank's ability to fulfill its obligations as they fall due. The principal uncertainties for liquidity risk are that customer depositors withdraw their funds at a substantially faster rate than expected, or that repayment for asset maturities is not received on the intended day. To mitigate these uncertainties, the Bank has a customer deposit base diversified by type and maturity. In addition it has ready access to wholesale funds, if required, under normal market conditions, and has a portfolio of liquid assets which can be realised if a liquidity stress occurs.

The Bank also reviews deposit concentrations on a regular basis to ensure associated risks are assessed and managed as part of its overall liquidity planning.

The Bank forecasts the balance sheet as part of the budget process and then re-forecasts during the year. This forecasting ensures that business growth is balanced and liquidity metrics remain appropriate for the prudent management of the balance sheet.

10.2 Compliance and Regulatory Risk

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements of both, the in-country regulator (i.e. RBI) and home regulator (i.e. FSA). The local Compliance function is responsible for implementing and monitoring of compliance with policies and procedures established by the Group Compliance and Regulatory function and also responsible for establishing and maintaining the local compliance framework. Adherence to such policies and procedures is the responsibility of all managers / staff.

10.3 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 / Bank, failure to protect the title to and ability to control the rights to assets of the Group / Bank (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. The Bank applies clear standards for the booking and documentation of contracts in order to ensure reliable information quality, the legal enforceability of agreements and the protection of Bank's rights.

10.4 Reputational Risk

Reputational risk is the risk of failure to meet the standards of performance or behaviours mandated by the Bank and expected by stakeholders in the way in which business is conducted. It will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory and operational risk. It may also arise from the failure to comply with social, environmental and ethical standards. It is the Bank's policy that, at all times, the protection of the Bank's reputation should take priority over all other activities, including revenue generation.

Risks such as reputational risk are not generally a part of the customer value proposition and arise more as a negative side effect of doing business. These are usually taken into account during the business origination process. Any related trade offs are informed and challenged by Risk and other specialists who can help to improve the risk and cost efficiency of such transactions and to uphold the integrity and transparency of the origination process.

From an organisational perspective the Group manages reputational risk through the Reputational Risk and Responsibility Committee (RRRC) and at India level through MANCO.

The RRRC is responsible for alerting the Group to emerging or thematic reputational risks; for seeking to ensure that effective risk monitoring is in place for reputational risk; and for reviewing the mitigation plan for any significant reputational risk that arises.

At country level, it is the responsibility of the CEO to protect the Bank's reputation in that market. To achieve this, the CEO and MANCO:

- 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.

11. MONITORING

Monitoring of risk management is achieved through independent reviews by GIA, business risk reviews and Compliance & Assurance functions and also by concurrent audits, spot checks by the external specialists as required under regulations. GIA function reports to the Group CEO and the Group Audit Committee.