

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

### 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. Standard Chartered Bank is regulated by the Financial Conduct Authority and Prudential Regulation Authority in the United Kingdom (UK).

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

### 2. Overview

The Basel Committee on Banking Supervision published a framework for International Convergence of Capital Measurement and Capital Standards (commonly referred to as Basel II), which replaced the original 1988 Basel I Accord. The RBI adopted the same in March 2008. The Basel III implementation schedule for India has commenced from 1 April 2013 and is phased in through to 31 March 2018. Accordingly, for 30 September 2013 reporting purposes, the Bank has calculated its Pillar 1 capital requirement based on Basel III norms.

Basel II/III 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 aims to bolster market discipline through enhanced disclosure by banks.

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

### 3. Scope of Basel II/III Framework

#### 3.1. Pillar 1

The SCB Group and local management of the Indian operations recognise that Basel II/III is a driver for continuous improvement of risk management practices and believe that adoption of leading risk management practices are essential for achieving its strategic intent. Accordingly, the Group has adopted the IRB model for the measurement of credit risk covering 80% of the portfolio. The Group applies Value at Risk (VaR) model for market risk capital and The Standardised Approach for determining its OR capital requirements. SCBI has adopted RBI’s prevailing Basel II/III regulations related to SA for credit and market risk and Basic Indicator Approach (BIA) for OR for computing local regulatory Pillar 1 capital.

#### 3.2. Pillar 2

Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate

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

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

### 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 Basel III Capital Regulations and 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). The regulatory requirements are governed by RBI guidelines. The differences between consolidation for accounting purposes and regulatory purposes are mainly on account of following reasons:

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

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

- 2) Nature of business of the entities to be consolidated

As per Indian GAAP, subsidiaries are not excluded from consolidation because of dissimilar nature of business activities between subsidiary and other entities within the Group. However, RBI regulations do

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not require consolidation of entities engaged in insurance business and businesses not pertaining to financial services.

### 3) Method of consolidation

The accounting consolidation methodology requires 'line by line' consolidation and elimination of all inter-group balances. However, for the purpose of regulatory consolidation under the capital adequacy framework, the risk weighted assets (RWA) and capital requirements for each entity can be computed separately by applying the Basel II/III 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 /Country Of Incorporation	Whether The Entity Is Included Under Accounting Scope Of Consolidation (Yes / No)	Explain The Method Of Consolidation	Whether The Entity Is Included Under Regulatory Scope Of Consolidation (Yes / No)	Explain The Method Of Consolidation	Explain The Reasons For Difference In The Method Of Consolidation	Explain the reasons if consolidated under only one of the scopes of consolidation
Standard Chartered Bank India Branches	Yes	Full	Yes		For the purpose of regulatory consolidation under the capital adequacy framework, the RWA and capital requirements for each entity can be computed separately by applying the Basel II/III 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.	
St. Helens Nominees India Pvt. Limited	Yes	Full	Yes			
Standard Chartered Investments and Loans (India) Limited	No	Not Applicable	Yes			
Standard Chartered Securities (India) Limited	No	Not Applicable	Yes			

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List of group entities in India not considered for consolidation both under the accounting and regulatory scope of consolidation:

Name Of The Entity /Country Of Incorporation	Principle activity of the entity	Total balance sheet equity (as stated in the accounting balance sheet of the legal entity)	% of bank's holding in the total equity	Regulatory treatment of bank's investments in the capital instruments of the entity	Total balance sheet assets(as stated in the accounting balance sheet of the legal entity)
Scope International Private Limited	The Company renders the following services to related parties: a) Software development, maintenance & support b) Back office transaction processing and data processing of various banking transactions c) IT Support d) Voice Call Centre Services	83,116	0%	Not Applicable	6,926,230
Standard Chartered Finance Limited	Marketing Services of financial products of Standard Chartered Bank and its Home Assist Division provides search and other property related services.	71,907	0%	Not Applicable	932,763
Standard Chartered (India) Wealth Advisory Services Pvt. Ltd.	Currently no business activity is being carried out through this entity.	500,000	0%	Not Applicable	574,388
Standard Chartered Private Equity Advisory (India) Private Limited	The Company is a research unit for Merlion India Fund carrying on activities of industry research and advice by furnishing industry and market feedback.	24,000	0%	Not Applicable	256,826

Note: The above data is as at 30<sup>th</sup> September 2013.

### 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 to meet regulatory capital requirements at all times.

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### 4.2. Approach

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

The capital plan takes the following into account:

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

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

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

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

### 4.3. Governance

The Group operates processes and controls to monitor and manage capital adequacy across the organisation. At a country level, capital is maintained on the basis of the local regulator's requirements. It is overseen by the country Asset and Liability Committee (ALCO), which is responsible for managing the country balance sheet, capital and liquidity, with the active support and guidance from Group ALCO (GALCO), Group Capital Management Committee (GCMC) and Group Treasury (GT). The responsibility of capital management has been assigned to a dedicated sub-group of ALCO, the Capital Management Group (CMG), which meets at least once a month. The capital management process is governed by the Capital Planning Framework.

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

### 4.4. Mobility of Capital Resources

The Bank operates as a branch in India, hence under current RBI regulations it cannot raise capital externally. The Group's policy in respect of profit repatriation requires that each local entity should remit its profits that are considered surplus to local regulatory minimum requirements. The amount to be remitted/injected and the mix/mode of capital (CET 1 v/s Tier 2) is determined in conjunction with GT, after taking into account local capital adequacy regulations (inclusive of any regulatory buffers), anticipated changes to those regulations, forecast organic growth and Head Office (HO) return expectations.

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### 4.5. Capital Structure

CET 1/ Tier 1 capital mainly comprises of:

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

The above are not repatriable/distributable to HO as long as the Bank operates in India.

Tier 2 capital mainly comprises of:

- i) 45% of reserve created on periodic revaluation of immovable properties in accordance with the Indian GAAP.
- ii) General provisions on standard (performing) assets created as per RBI regulations.
- iii) Reserve created out of unrealised gain on revaluation of investments as per RBI regulations.
- iv) Subordinated debts from HO in foreign currency. These are unsecured, unguaranteed and subordinated to the claims of other creditors, including without limitation, customer deposits and deposits by banks.

### 4.6. Capital and RWA

(₹ in 000s)

	30.9.2013	
	Basel III	
	Solo Bank*	Consolidated Basis*
<b>Tier 1 Capital :</b>	<b>142,301,089</b>	<b>149,836,609</b>
Common Equity Tier I Capital	142,301,089	149,836,609
Head Office Capital	27,257,992	27,257,992
Paid-up capital of subsidiaries / associates	-	6,169,657
Eligible reserves	131,191,154	132,610,222
Intangible assets	(16,135,011)	(16,188,216)
Other regulatory adjustments	(13,046)	(13,046)
Additional Tier I Capital	-	-
<b>Tier 2 Capital :</b>	<b>33,332,971</b>	<b>33,354,939</b>
Eligible revaluation reserves	4,415,626	4,415,626
General provision and other eligible reserves/provisions	6,919,345	6,941,313
Debt capital instruments eligible to be reckoned as capital funds and included in Lower Tier 2 (of which amount raised during the year ₹. Nil)	27,497,500	27,497,500
Less: Amortisation of qualifying subordinated debts	(5,499,500)	(5,499,500)
Other regulatory adjustments		
<b>Total Capital Base</b>	<b>175,634,060</b>	<b>183,191,548</b>
<b>Minimum Regulatory Capital Requirements</b>		
<b>Credit Risk</b>	<b>119,028,408</b>	<b>119,954,615</b>
Standardised approach portfolios	95,942,177	96,868,384
Securitisation exposures	2,060,861	2,060,861
Counterparty Risk on FX and Derivatives	21,025,370	21,025,370

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30.9.2013

Basel III

	Solo Bank*	Consolidated Basis*
<b>Market Risk - Standardised Duration Approach</b>	6,954,644	6,956,638
Interest rate risk	6,085,100	6,085,100
Foreign exchange risk (including gold)	810,000	810,000
Equity risk	59,544	61,538
<b>Operational Risk - Basic Indicator Approach</b>	10,703,922	10,954,793
<b>Total Minimum Regulatory Capital Requirements</b>	<b>136,686,974</b>	<b>137,866,046</b>
<b>Risk Weighted Assets and Contingents</b>		
Credit risk	1,322,537,866	1,332,829,051
Market risk (including counterparty/settlement risks)	77,273,815	77,295,977
Operational risk	118,932,466	121,719,926
<b>Total Risk Weighted Assets and Contingents</b>	<b>1,518,744,147</b>	<b>1,531,844,954</b>
<b>Capital Ratios</b>		
CET 1 capital	9.37%	9.78%
Tier 1 capital	9.37%	9.78%
Tier 2 capital	2.19%	2.18%
<b>Total Capital</b>	<b>11.56%</b>	<b>11.96%</b>

30.9.2012

Basel II

	Solo Bank*	Consolidated Basis*
<b>Tier 1 Capital :</b>	<b>124,709,637</b>	<b>130,398,223</b>
Head Office Capital	16,157,992	16,157,992
Paid up capital	-	5,075,257
Eligible reserves	123,068,361	123,709,075
Intangible assets	(13,402,042)	(13,422,800)
Unconsolidated subsidiaries/associates	(50)	(50)
Other regulatory adjustments	(1,114,624)	(1,121,251)
<b>Tier 2 Capital :</b>	<b>36,566,047</b>	<b>36,948,138</b>
Eligible revaluation reserves	4,740,633	4,740,633
General provision and other eligible reserves/provisions	6,432,392	6,447,389
Debt capital instruments eligible to be reckoned as capital funds and included in Lower Tier 2 (of which amount raised during the year ₹ Nil)	26,427,500	26,427,500
Less: Amortisation of qualifying subordinated debts	-	-
Other regulatory adjustments	(1,034,478)	(1,041,105)
<b>Total Capital Base</b>	<b>161,275,684</b>	<b>166,972,640</b>
<b>Minimum Regulatory Capital Requirements</b>		
<b>Credit Risk</b>	<b>99,947,301</b>	<b>100,671,104</b>
Standardised approach portfolios	81,621,015	82,344,818
Securitisation exposures	9,000	9,000
Counterparty/settlement risks	18,317,286	18,317,286

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	30.9.2012	
	Basel II	
	Solo Bank*	Consolidated Basis*
<b>Market Risk -</b>	6,836,393	6,839,698
Standardised Duration Approach		-
Interest rate risk	6,381,778	6,381,778
Foreign exchange risk (including gold)	360,000	360,000
Equity risk	94,615	97,920
Counterparty/settlement risks	-	-
<b>Operational Risk - Basic Indicator Approach</b>	<b>10,159,913</b>	<b>10,342,932</b>
<b>Total Minimum Regulatory Capital Requirements</b>	<b>116,943,607</b>	<b>117,853,734</b>
<b>Risk Weighted Assets and Contingents</b>		
Credit risk	1,110,525,570	1,118,567,825
Market risk (including counterparty/settlement risks)	75,959,925	75,996,647
Operational risk	112,887,923	114,921,478
<b>Total Risk Weighted Assets and Contingents</b>	<b>1,299,373,418</b>	<b>1,309,485,950</b>
<b>Capital Ratios</b>		
Tier 1 capital	9.60%	9.96%
Tier 2 capital	2.81%	2.79%
<b>Total Capital</b>	<b>12.41%</b>	<b>12.75%</b>

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

## 5. Risk Management

The Bank has a strong governance culture and framework for risk management. The Bank's risk management principles align with those established at a Group level, and are customised to meet the local regulatory requirements. One of the main risks incurred arises from extending credit to customers through trading and lending operations. Beyond credit risk, the Bank is also exposed to a range of other risk types such as market, operational, liquidity, pension, country cross border, reputational, strategic and other risks that are inherent to its strategy, product range and geographical coverage.

### 5.1. Risk Management Framework (RMF)

The Bank adds value to customers and generates returns for shareholders by taking and managing risk in line with strategy and within risk appetite. Risk management is the set of end-to-end activities through which the Bank makes risk-taking decisions and controls and optimises its risk-return profile. It is a Bank-wide activity and starts at the front-line.

The management of risk lies at the heart of the Bank's business. Effective risk management is a central part of the financial and operational management of the Bank and is fundamental to its ability to generate profits consistently and maximise the interest of its stakeholders.

The Bank's risk and capital assessment processes are built upon its RMF and governance structure. The RMF establishes common principles and standards for the management of and control of all risks, and to inform behaviour across the organisation. The core components of the RMF include the Bank's risk classifications, risk



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principles and standards, definitions of roles and responsibilities and governance structure. Under this framework, there are three lines of defence.

- The First Line of Defence is that all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities.
- The Second Line of Defence comprises the Risk Control Owners (RCO), supported by their respective control functions. RCOs are responsible for ensuring that the residual risks within the scope of their responsibilities remain within appetite. There are three central aspects to discharging this responsibility: the identification of material risks; maintaining an effective control environment; and understanding and accepting levels of residual risk. The Second Line is independent of the origination, trading and sales functions to ensure that the necessary balance and perspective is brought to risk/return decisions. This is particularly important given that revenues are recognised immediately while losses arising from risk positions only manifest themselves over time. The Second Line has the authority to challenge and stop business activities (within the scope of their control responsibilities) where risks are not aligned with control requirements or risk appetite.
- The Third Line of Defence comprises the independent assurance provided by the Group Internal Audit (GIA) function, which has no responsibilities for any of the activities it examines. GIA provides independent assurance of the effectiveness of management's control of its own business activities (the First Line) and of the processes maintained by the Risk Control Functions (the Second Line). As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the RMF. The findings from GIA's audits are reported to all relevant management and governance bodies – accountable line managers, relevant oversight function or committee and committees of the Board. The role of GIA is defined and overseen by the Audit Committee and is set out in the Group's Internal Audit Charter.

### 5.2. Risk Governance

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

Ultimate responsibility for overall management and governance of the Bank, approval of long-term objectives and commercial strategy, implementing risk appetite and risk management, capital management and optimisation; effective cooperation and coordination between businesses rests with the MANCO. It is chaired by the Country Chief Executive Officer (CEO). Its membership also includes functional heads of the businesses, control and support functions in India. The MANCO comprises senior bankers who are well qualified, experienced and competent individuals and are well acknowledged in their respective fields. The MANCO meets on a monthly basis.

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

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

Committee (delegated authority from)	Purpose	Members	Frequency of meetings
ALCO (MANCO)	Responsible for the management of capital and liquidity and the establishment of and compliance with policies relating to balance sheet management, including management of the Bank's liquidity and capital adequacy.	<ul style="list-style-type: none"> <li>▪ CEO (Chair)</li> <li>▪ Chief Financial Officer (CFO)</li> <li>▪ Country Chief Risk Officer (CCRO)</li> <li>▪ Business Heads</li> <li>▪ Retail Banking products head</li> <li>▪ Asset Liability Management (ALM) Head</li> <li>▪ Economist</li> <li>▪ Financial Controller</li> <li>▪ Financial and Management Accounting Head</li> </ul>	Monthly
Country Risk Committee (CRC) (MANCO)	Responsible for the effective management of risks in support of business strategy within the boundaries set by the MANCO and business level risk committees. It is responsible for implementing the RMF, including assignment of the roles and responsibilities of RCO locally. It is also responsible for ensuring that the risk exposures for all types of risks, (including liquidity risk), remain within the overall risk appetite and within any specific boundaries advised by MANCO and business risk committees. Responsibility to manage Liquidity and Capital Risks remain with ALCO.	<ul style="list-style-type: none"> <li>▪ CCRO (Chair)</li> <li>▪ CEO (Alternate Chair)</li> <li>▪ CFO</li> <li>▪ Head of Compliance</li> <li>▪ Business Heads</li> </ul>	Bi-monthly

Key sub-committees include:

- A. The Liquidity Management Committee (LMC) is a sub-committee of the ALCO which manages liquidity for the Bank. It includes members from Finance, ALM and the businesses. LMC meets monthly.
- B. The CMG is a sub-committee of the ALCO which manages capital. It is chaired by the CFO and includes members from Finance, Risk and the businesses. CMG meets monthly.
- C. The Stress Test Committee (STC) is a subcommittee of the CRC. It comprises members from the Finance and Risk functions and the Country Economist and is responsible for reviewing and challenging the stress scenario used in the ICAAP. It is also responsible for reviewing the results of the ongoing stress testing and providing recommendations to CRC. The STC is chaired by the CCRO and meets on a quarterly basis.
- D. The Country Operational Risk Committee (CORC) is a sub-committee of the CRC. It exercises oversight of the Bank's OR exposure to ensure that it is managed in a manner consistent with the RMF. The CORC meets monthly to review the Bank's significant risk exposures and to ensure appropriateness and adequacy of mitigating action plans. The CEO/CCRO is the chairman of the CORC.

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### 5.3. The Risk function

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

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

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

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

### 5.4. Risk Appetite

The Group/Bank manages its risks to build a sustainable franchise in the interests of all stakeholders. The Group Risk Appetite Statement (the RAS) is the Standard Chartered PLC's Board of Directors' articulation of the amount of risk that the Group is willing to take in the pursuit of its strategic goals. When setting risk appetite, it considers overall risk management strategy/approach and appropriate margin between actual risk exposure and its risk capacity. At a country level, a detailed risk appetite assessment is performed annually, where a country's portfolio is assessed for how it contributes towards upholding the RAS and to assess key issues and potential concerns around the country's business strategy and portfolio composition. The assessment of the country portfolio's contribution to the Group's risk appetite is performed through a 'bottom-up' analytical approach at a business/customer segment/product level.

Given the different revenue, cost and risk parameters associated with the various products offered by the Bank, changes to the assumptions about business mix, asset quality and collateral have a direct impact on the aggregate level of projected credit losses, profits, capital consumption and returns in all economic conditions. A number of levers are therefore used by management to adjust the risk profile, capital consumption and business performance ahead of stress events. Examples include caps on unsecured exposures in Consumer Bank (CB), portfolio caps by industry sectors and increasing collateralisation rates in Wholesale Bank (WB) to lower loss given default (LGD) in the portfolio.

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

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### 5.5. Stress Testing

Stress testing and scenario analysis are used to assess the Bank's ability to maintain operations that are consistent with its risk appetite during periods of severe but plausible stress conditions and to simulate the set of feasible management actions and their impact on the Bank's earnings, risk profile and capital position, should such conditions materialise. These conditions may arise from economic, liquidity, legal, political or physical events, or from materialisation of risks that are unique to the Bank.

The stress testing framework is designed to:

- Contribute to the setting and monitoring of risk appetite;
- Identify the key risks to strategy, financial position and reputation;
- Support the development of mitigating actions and contingency plans;
- Ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing;
- Inform senior management; and
- Ensure adherence to regulatory requirements.

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

The India STC leverages on work done by Group and, in addition, reviews scenarios specific to the local context, including for ICAAP. Stress tests/impact analysis done in India during 2012-13 included increased level of inflation, commodity price volatility assessment, telecom sector review, auto sector review, inflation, refinance risk, diamond segment review, oil price increase, mortgage portfolio review, etc.

### 6. Credit Risk

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

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

#### 6.1. Credit Policies

Group-wide credit policies and standards are considered and approved by the GRC, which also oversees the delegation of credit approval and loan impairment provisioning authorities. Policies and procedures specific to each business are established by authorised risk committees within WB and CB. The WB Monitoring and Control Policy and the CB Management Information Systems and Reporting Framework provide the outline for how credit risk should be monitored and managed in the Bank. These are consistent with the Group-wide credit policies, but are more detailed and adapted to reflect the different risk environments and portfolio

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

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

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

#### *Consumer Banking*

For 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.

Distribution of credit products through the new business channel is governed by the New Business Management and Risk Policy and Procedures, 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 PD calculated using IRB models. These models are based on application and behavioural scorecards which make use of external credit bureau information as well as the Bank's own data. In case of portfolios where such IRB models have not yet been developed, the PD 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

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

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

### 6.4. Credit Monitoring

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

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

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

The CRC is responsible for the effective management of credit risk, among other risks.

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

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

### 6.5. Concentration Risk

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

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

Credit concentration risk is governed by the Group's Large Exposure Policy and MANCO approved Local Lending Policy (LLP) for WB. Respective risk functions ensure adherence to these policies under the ambit of the CRC. Limits are established by the CCRO in conjunction with Group WB Risk and approved by CRC in line with Credit Reference Level framework. For CB, credit concentration risk is monitored and managed by products.

Credit concentration risk is principally managed based on two components: single-name borrower exposure and industry concentrations. For managing single-name concentrations, the Bank monitors compliance to the single and group borrower regulatory guidelines. The LLP establishes industry and credit grade concentration limits. The CRC monitors adherence to these prescribed limits. Any excesses from the ceilings prescribed in the LLP are escalated to the CCRO and/or MANCO for approval in accordance with the escalation grid established in the LLP.

CB manages product concentration risk through portfolio management approach in order to limit concentration, reduce volatility and improve profitability. As part of the annual budget, the product mix of the portfolio and the secured/unsecured share is planned and is monitored on a bi-monthly basis and reported to the CRC in country; portfolio reviews are also undertaken by the Credit Governance Committee (CGC). The exposure and the recession loss are tracked on a monthly basis against Credit Approval Document (CAD) limits on peak exposure and peak recession loss. Breaches to triggers and significant variations in thresholds are reported to the regional CB Chief Risk Officer. All significant portfolio issues, breaches to CAD triggers, and significant variations in CAD thresholds are reported to the CGC.

Both WB and CB portfolios are reviewed periodically to ensure compliance with caps and risk appetite. In respect of industry/sectoral concentration caps, the CRC monitors adherence to approved limits based on a bi-monthly review of the Bank's portfolio.

### **6.6. Risk Reporting and Measurement**

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

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

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

### **6.7. Problem Credit Management and Provisioning**

**Risk review and disclosures under Basel III Framework for the period ended 30 September 2013**

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

*Wholesale Banking*

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

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

*Consumer Banking*

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

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

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



**Risk review and disclosures under Basel III Framework for the period ended 30 September 2013**

### 6.8. Quantitative Disclosures

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

Nature & category of exposures	(₹ in 000s)	
	Credit risk exposures 30.09.2013	30.09.2012
Inter bank exposures	19,617,632	6,588,607
Investments (HTM)	-	-
Advances	736,725,021	600,410,507
<b>Total gross fund based exposures</b>	<b>756,342,653</b>	<b>606,999,114</b>
Specific provisions / Provisions for depreciation in the value of investment <sup>1</sup>	(34,708,451)	(28,203,512)
<b>Total net fund based exposures</b>	<b>721,634,202</b>	<b>578,795,602</b>
Fx and derivative contracts	511,997,973	488,350,438
Guarantees, acceptances, endorsements and other obligations	319,090,715	305,363,220
Other commitments and credit lines <sup>2</sup>	65,892,617	38,464,634
<b>Total gross non-fund based exposures<sup>3</sup></b>	<b>896,981,305</b>	<b>832,178,292</b>
Specific provisions	(737)	(737)
<b>Total net non fund based exposures</b>	<b>896,980,568</b>	<b>832,177,555</b>

<sup>1</sup> Excluding provision on standard assets (Previous Year: excluding floating provision and provision on standard assets)

<sup>2</sup> 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.

<sup>3</sup> 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/III 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 (PFE), 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.

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

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

(₹ in 000s)

Nature and category of industry	30.9.2013			30.9.2012		
	Fund based	Non fund based	Total	Fund based	Non fund based	Total
Mining and Quarrying	1,103,470	207,622	1,311,092	5,178,063	394,677	5,572,740
<i>Of which:</i>						
- Coal	148,860	31,612	180,472	164,002	175,395	339,397
- Others	954,610	176,010	1,130,620	5,014,061	219,282	5,233,343
Food Processing	17,393,305	9,293,353	26,686,658	14,436,926	10,926,910	25,363,836
<i>Of which:</i>						
- Sugar	2,730,299	2,505,765	5,236,064	2,859,827	2,115,521	4,975,348
- Edible Oils and Vanaspati	4,908,055	4,679,893	9,587,948	447,527	7,083,969	7,531,496
- Tea	489,613	458,338	947,951	209,559	568,608	778,167
- Others	9,265,338	1,649,357	10,914,695	10,920,013	1,158,812	12,078,825
Beverages (excluding Tea & Coffee) and Tobacco	14,126,818	872,173	14,998,991	8,876,160	706,732	9,582,892
<i>Of which:</i>						
- Tobacco and tobacco products	6,484,021	189,077	6,673,098	6,820,815	293,206	7,114,021
- Others	7,642,797	683,096	8,325,893	2,055,345	413,526	2,468,871
Textiles	22,263,341	3,203,426	25,466,767	22,761,945	3,644,351	26,406,296
<i>Of which:</i>						
- Cotton	83,120	-	83,120	257,811	-	257,811
- Others	22,180,221	3,203,426	25,383,647	22,504,134	3,644,351	26,148,485
<i>Out of Total Textiles to Spinning Mills</i>	964,465	-	964,465	1,031,807	-	1,031,807
Leather and Leather products	1,021,423	184,885	1,206,308	921,668	88,211	1,009,879
Wood and Wood Products	928,386	1,089,957	2,018,343	879,690	1,170,563	2,050,253
Paper and Paper Products	7,136,602	1,730,936	8,867,538	7,087,509	796,738	7,884,247
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	7,592,677	14,987,896	22,580,573	484,982	13,113,939	13,598,921
Chemicals and Chemical Products (Dyes, Paints, etc.)	36,967,582	23,621,633	60,589,215	34,778,509	19,139,619	53,918,128
<i>Of which:</i>						
- Fertilisers	423,745	3,123,592	3,547,337	972,444	2,961,819	3,934,263
- Drugs and Pharmaceuticals	19,854,955	3,253,663	23,108,618	16,945,506	2,588,680	19,534,186
- Petro-chemicals (excluding under Infrastructure)	8,184,928	4,374,284	12,559,212	8,088,897	3,972,800	12,061,697
- Others	8,503,954	12,870,094	21,374,048	8,771,662	9,616,320	18,387,982
Rubber, Plastic and their Products	5,242,820	2,734,412	7,977,232	4,821,270	3,178,681	7,999,951
Glass & Glassware	1,531,833	1,143,530	2,675,363	2,013,567	963,066	2,976,633
Cement and Cement Products	16,538,401	3,475,857	20,014,258	6,364,444	1,818,658	8,183,102
Basic Metal and Metal Products	46,139,137	23,239,740	69,378,877	35,720,251	26,024,812	61,745,063
<i>Of which:</i>						
- Iron and Steel	24,066,440	12,587,262	36,653,702	11,804,746	15,650,433	27,455,179
- Other Metal and Metal Products	22,072,697	10,652,478	32,725,175	23,915,505	10,374,379	34,289,884
All Engineering	35,776,844	38,613,130	74,389,974	30,152,341	33,583,798	63,736,139
<i>Of which:</i>						
- Electronics	9,401,779	18,451,539	27,853,318	8,695,302	12,432,547	21,127,849
- Others	26,375,065	20,161,591	46,536,656	21,457,039	21,151,251	42,608,290
Vehicles, Vehicle Parts and Transport Equipments	12,979,894	12,312,772	25,292,666	14,819,841	8,257,040	23,076,881

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

Nature and category of industry	30.9.2013			30.9.2012		
	Credit Risk Exposures			Credit Risk Exposures		
	Fund based	Non fund based	Total	Fund based	Non fund based	Total
Gems & Jewellery	32,850,912	1,503,071	34,353,983	26,946,220	4,562,727	31,508,947
Construction	17,970,069	15,791,157	33,761,226	19,613,088	15,622,639	35,235,727
Aviation	-	18,903,805	18,903,805	-	15,402,295	15,402,295
Infrastructure	72,020,618	23,545,348	29,972,464	41,237,135	26,035,526	20,026,071
<i>Of which:</i>						
- Roads and Bridges	11,318,668	3,260,371	14,579,039	7,853,404	2,213,010	10,066,414
- Ports	-	137,900	137,900	-	136,550	136,550
- Inland Waterways	7,691,786	2,483,885	10,175,671	4,478,504	2,504,595	6,983,099
- Airport	6,099	342,700	348,799	144,000	6,808	150,808
- Railway Track, tunnels, viaducts, bridges	2,673,600	2,057,455	4,731,055	1,538,087	1,151,113	2,689,200
- Electricity (Generation)	2,153,662	2,205,282	4,358,944	295,506	3,758,647	4,054,153
- Electricity (Transmission)	1,993,408	3,459,227	5,452,635	2,433,453	3,017,296	5,450,749
- Oil/Gas/Liquefied Natural Gas (LNG) storage facility	48,900	-	48,900	332,530	89,351	421,881
- Gas pipelines	1,046	-	1,046	7,135	-	7,135
- Water and sanitation	-	303,101	303,101	-	326,012	326,012
- Communication	43,620,718	9,295,427	52,916,145	21,943,411	12,131,529	34,074,940
- Other Infrastructure	2,512,731	-	2,512,731	2,211,105	700,615	2,911,720
Trading & NBFC	60,273,314	24,617,032	84,890,346	45,089,863	4,507,562	49,597,425
Mortgage	98,665,433	-	98,665,433	80,420,168	-	80,420,168
Retail Others	63,182,596	-	63,182,596	49,586,221	-	49,586,221
Real Estate	65,735,195	1,730,400	67,465,595	58,873,318	2,922,048	61,795,366
Other Industries	99,284,662	96,934,374	196,219,036	89,347,328	112,502,628	201,849,956
<b>Total Gross Advances</b>	<b>736,725,332</b>	<b>319,736,509</b>	<b>1,056,461,841</b>	<b>600,410,507</b>	<b>305,363,220</b>	<b>905,773,727</b>
Specific provisions	(34,708,451)	(737)	(34,709,188)	(28,203,512)	(737)	(28,204,249)
<b>Total Net Advances</b>	<b>702,016,881</b>	<b>319,735,772</b>	<b>1,021,752,653</b>	<b>572,206,995</b>	<b>305,362,483</b>	<b>877,569,478</b>
<b>Total Inter-bank exposures</b>	<b>19,617,632</b>	<b>-</b>	<b>19,617,632</b>	<b>6,588,607</b>	<b>-</b>	<b>6,588,607</b>
<b>Total Investments (HTM)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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.

**Risk review and disclosures under Basel III Framework for the period ended 30 September 2013**

d) Analysis of residual contractual maturity of assets

As at 30 September 2013 (₹ in 000s)

Maturity Bucket	Cash and Bank balances with RBI	Balances with Banks and money at call and short notice	Investments	Advances	Fixed Assets	Other Assets
1day (d)	12,011,427	3,008,303	100,169,326	34,226,459	-	31,151,250
2d-7d	4,020,536	21,500	30,241,310	57,709,579	-	891,187
8d - 14d	7,431,589	58,500	38,362,692	66,594,962	-	186,321
15d - 28d	2,176,648	66,500	15,239,483	35,270,099	-	3,211,394
29d - 3month (m)	7,017,319	352,200	39,761,946	119,139,910	-	57,208,880
3m - 6m	3,329,814	-	36,874,464	78,619,162	-	71,397,382
6m - 1year (y)	3,512,342	-	30,094,956	32,830,672	-	60,874,265
1y - 3y	1,209,570	-	15,777,926	78,468,017	-	60,247,808
3y - 5y	54,476	-	9,329,672	63,105,192	-	24,243,231
> 5y	1,831,021	-	6,824,033	135,857,287	24,085,662	35,301,028
<b>Total</b>	<b>42,594,742</b>	<b>3,507,003</b>	<b>322,675,808</b>	<b>701,821,339</b>	<b>24,085,662</b>	<b>344,712,746</b>

As at 30 September 2012 (₹ in 000s)

	Cash and Bank balances with RBI	Balances with Banks and money at call and short notice	Investments	Advances	Fixed Assets	Other Assets
<b>1day (d)</b>	13,057,126	6,731,054	67,298,328	26,779,798	-	22,842,968
<b>2d-7d</b>	1,334,181	14,000	8,563,313	43,360,923	-	911,133
<b>8d - 14d</b>	1,591,102	153,060	7,704,285	53,568,796	-	-
<b>15d - 28d</b>	2,978,351	134,500	14,421,488	28,888,116	-	3,060,103
<b>29d - 3month(m)</b>	6,283,057	548,000	42,224,557	88,693,056	-	34,743,955
<b>3m - 6m</b>	2,991,991	-	35,878,689	74,300,836	-	44,865,733
<b>6m - 1year (y)</b>	5,049,388	-	25,822,066	32,540,742	-	61,153,361
<b>1y - 3y</b>	8,626,927	8,000	41,807,699	81,703,768	-	42,854,381
<b>3y - 5y</b>	83,049	-	16,086,847	35,761,857	-	25,485,716
<b>&gt; 5y</b>	1,848,402	-	9,395,219	106,512,526	24,862,890	27,418,480
<b>Total</b>	<b>43,843,574</b>	<b>7,588,614</b>	<b>269,202,491</b>	<b>572,110,418</b>	<b>24,862,890</b>	<b>263,335,830</b>

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

**Risk review and disclosures under Basel III Framework for the period ended 30 September 2013**

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

Particulars	(₹ in 000s)	
	30.09.2013	30.09.2012
Sub Standard	22,802,411	5,933,049
Doubtful	7,580,939	5,836,206
- Doubtful 1	4,432,427	4,113,080
- Doubtful 2	2,734,556	1,308,599
- Doubtful 3	413,956	414,527
Loss	24,225,584	19,480,934
Gross NPAs	54,608,934	31,250,189
Provisions	(34,708,451)	(28,203,512)
Net NPAs	19,900,483	3,046,677
<b>Cover ratio</b>	<b>63.56%</b>	<b>90.25%</b>

f) NPA Ratios

Particulars	30.09.2013	30.09.2012
Gross NPAs to gross advances	7.41%	5.20%
Net NPAs to net advances	2.84%	0.53%

g) Movement of NPAs

Particulars	(₹ in 000s)			
	30.09.2013		30.09.2012	
	Gross	Net	Gross	Net
Balance, beginning of the year	38,800,624	10,098,172	32,121,562	3,868,066
Additions during the year	19,748,500	11,082,759	6,494,332	2,024,399
Reductions during the year	(3,940,190)	(1,280,448)	(7,365,705)	(2,845,788)
<b>Balance, end of the year</b>	<b>54,608,934</b>	<b>19,900,483</b>	<b>31,250,189</b>	<b>3,046,677</b>

h) Movement of provisions for NPAs

Particulars	(₹ in 000s)	
	30.09.2013	30.09.2012
Balance, beginning of the year	28,702,452	28,253,496
Add: Provisions during the year	8,665,741	5,177,288
Less: Utilisation / writeback of provisions no longer required	(2,659,742)	(5,227,272)
<b>Balance, end of the year</b>	<b>34,708,451</b>	<b>28,203,512</b>

**Risk review and disclosures under Basel III Framework for the period ended 30 September 2013**

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

Particulars	(₹ in 000s)	
	30.09.2013	30.09.2012
Balance, beginning of the year	405,842	45,092
Additions during the year	297,548	10,581
Reductions during the year	(8,044)	-
Balance, end of the year	695,346	55,673
<b>Total provisions held at the end of the year</b>	<b>691,691</b>	<b>45,092</b>

j) Movement of provisions for depreciation on investments

Particulars	(₹ in 000s)	
	30.09.2013	30.09.2012
Balance, beginning of the year	1,014,504	1,268,109
Add: Provisions during the year	3,093,904	0
Less: Utilisation / writeback of provisions no longer required	(8,044)	(1,222,876)
<b>Balance, end of the year</b>	<b>4,100,364</b>	<b>45,233</b>

**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 the SA for measurement of credit risk. The risk weights applied under the SA are prescribed by the RBI and are based on the asset class to which the exposure is assigned. This approach permits use of external ratings for credit exposures to counterparties in the category of sovereigns, international banks, corporate and securitisation exposures. The specified credit rating agencies used for these types of exposures are as under:

Domestic Credit Rating Agencies	International Credit Rating Agencies
Credit Rating Information Services of India Limited	Standard and Poor's
ICRA Limited	Moody's
India Ratings and Research Private Limited (India Ratings)	
Credit Analysis and Research Limited	
SME Rating Agency of India Limited	
Brickworks Ratings India Pvt Limited	

Rated facilities have generally 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. 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.

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

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

As at 30 September 2013

(₹ in 000s)

Nature & category of exposures	Total gross credit exposure	Credit risk mitigation	Net exposure (before provision)	Credit risk weight buckets summary			Deduction from capital
				< 100%	100%	> 100%	
Inter bank exposures	19,617,632	-	19,617,632	19,617,632	-	-	-
Investments (HTM)	-	-	-	-	-	-	-
Advances	736,725,021	(20,324,051)	716,400,970	137,334,413	497,538,814	81,527,743	-
<b>Total fund based exposures</b>	<b>756,342,653</b>	<b>(20,324,051)</b>	<b>736,018,602</b>	<b>156,952,045</b>	<b>497,538,814</b>	<b>81,527,743</b>	<b>-</b>
Fx and derivative contracts	511,997,973	-	511,997,973	370,259,769	134,420,393	7,317,811	-
Guarantees, Acceptances, endorsements and other obligations	319,090,715	(2,600,194)	316,490,521	72,845,929	233,492,615	10,151,977	-
Undrawn Commitments and others	65,892,617	-	65,892,617	19,954,449	45,205,609	732,559	-
<b>Total non fund based exposures</b>	<b>896,981,305</b>	<b>(2,600,194)</b>	<b>894,381,111</b>	<b>463,060,147</b>	<b>413,118,617</b>	<b>18,202,347</b>	<b>-</b>

As at 30 September 2012

(₹ in 000s)

Nature & category of exposures	Total gross credit exposure	Credit risk mitigation	Net exposure (before provision)	Credit risk weight buckets summary			Deduction from capital
				< 100%	100%	> 100%	
Inter bank exposures	6,588,607	-	6,588,607	6,588,607	-	-	-
Investments (HTM)	-	-	-	-	-	-	-
Advances	600,410,507	(9,377,803)	591,032,704	89,591,469	427,691,340	73,749,895	-
<b>Total fund based exposures</b>	<b>606,999,114</b>	<b>(9,377,803)</b>	<b>597,621,311</b>	<b>96,180,076</b>	<b>427,691,340</b>	<b>73,749,895</b>	<b>-</b>
Fx and derivative contracts	488,350,438	-	488,350,438	386,190,043	101,348,437	811,958	-
Guarantees, Acceptances, endorsements and other obligations	305,363,220	(13,815,742)	291,547,478	70,770,720	211,641,041	7,807,209	1,328,508
Undrawn Commitments and others	38,464,634	-	38,464,634	2,527,930	35,196,357	-	740,347
<b>Total non fund based exposures</b>	<b>832,178,292</b>	<b>(13,815,742)</b>	<b>818,362,550</b>	<b>459,488,693</b>	<b>348,185,835</b>	<b>8,619,167</b>	<b>2,068,855</b>

### 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, guarantees and restructuring. 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 review and disclosures under Basel III Framework for the period ended 30 September 2013

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

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

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

Guarantees taken can be categorised as follows:

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

Nature and category of exposures	30.9.2013	30.9.2012
Exposure covered by eligible financial collateral after application of haircuts	55,924,151	45,110,261
Exposure covered by guarantees	30,433,846	11,944,190

(₹ in 000s)

### 6.10. Securitisation: Disclosure for standardised approach

Securitisation transactions are generally undertaken with the objective of credit risk transfer, liquidity management, meeting regulatory requirements such as 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.



## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

- 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*

The Bank securitises corporate and retail advances to Special Purpose Vehicles ('SPV'). Securitised assets are derecognised if they are transferred to the SPV in compliance with all the conditions of true sale as prescribed in 'Guidelines on Securitisation transactions' vide circulars DBOD.No.B.P.BC-103/21.04.177/2011-12 dated 07 May 2012 and DBOD.NO.BP.BC.60/21.04.048/2005-06 dated 01 February 2006 issued by the RBI. Securitisation transactions which do not meet the criteria for derecognition are accounted for as secured borrowings.

In accordance with the above referred circular, gain arising on securitisation is amortised over the life of the securities issued / to be issued by the SPV. Loss, if any, is recognised immediately in the Profit and Loss Account.

The Bank also follows the aforesaid principles to ascertain de-recognition of loans and advances through direct assignment and the gain arising upon such direct assignment is amortised over the life of the loans and advances sold. Loss, if any, is recognised immediately in the Profit and Loss Account.

In respect of credit enhancements provided or recourse obligations accepted by the Bank at the time of securitisation or direct assignment, appropriate provisions / disclosures are made in accordance with AS 29 – Provisions, Contingent Liabilities and Contingent Assets.

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

### Regulatory capital approach

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

### Quantitative Disclosures

#### 6.10.1. Banking Book

a) The outstanding exposures securitised by the Bank (in ₹ 000's) as on 30 September 2013: ₹ 5,035,541 (Previous Year: ₹ 3,803,166).

b) Securitisation losses recognised by the Bank during period ending 30 September 2013

(₹ in 000s)

Exposure Type	For the period ended 30.9.2013		For the period ended 30.9.2012	
	Underlying Security Outstanding	Losses	Underlying Security Outstanding	Losses
Corporate Loans	-	-	3,75,000	(514)

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

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

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

(₹ in 000s)

Exposure Type	30 September 2013		30 September 2012	
	Outstanding	Unrecognised gain /(loss)	Outstanding	Unrecognised gain /(loss)
Housing Loans	2,508,771	38,555	3,083,556	54,774
Corporate Loans	2,526,770	-	719,610	26

e) Securitisation exposures retained or purchased

(₹ in 000s)

Exposure Type	30 September 2013		30 September 2012	
	On Balance Sheet	Off Balance Sheet	On Balance Sheet	Off Balance Sheet
Housing Loans	732,559	1,328,508	740,347	1,328,508
Vehicle Loans	-	-	-	100,000
	732,559	1,328,508	740,347	1,428,508

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

As at 30 September 2013

(₹ in 000s)

Exposure Type	<100% risk weight	100% risk	>100% risk	Total
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**Risk review and disclosures under Basel III Framework for the period ended 30 September 2013**

		weight	weight	
Housing Loans	-	-	2,061,067	2,061,067
Capital Charge	-	-	2,060,861	2,060,861

As at 30 September 2012 (₹ in 000s)

Exposure Type	<100% risk weight	100% risk weight	>100% risk weight	Total
Vehicle Loans	-	100,000	-	100,000
Capital Charge	-	9,000	-	9,000

g) Securitisation exposures deducted from capital

As at 30 September 2013 (₹ 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	-	-	-

As at 30 September 2012 (₹ 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	-	-	2,068,856

**6.10.2. Trading Book**

- a) There are no outstanding exposures securitised for which the Bank has retained any exposure which is subject to Market Risk.
- b) Securitisation exposures retained or purchased – On Balance Sheet and Off Balance Sheet.

As at 30 September 2013 (₹ in 000s)

Exposure Type	On Balance Sheet	Off Balance Sheet
Vehicle Loans	17,696,510	-
SME Loans	2,571,089	-
<b>Total</b>	<b>20,267,599</b>	<b>-</b>

As at 30 September 2012 (₹ in 000s)

Exposure Type	On Balance Sheet	Off Balance Sheet
Vehicle Loans	12,009,508	-
SME Loans	5,496,182	-
<b>Total</b>	<b>17,505,690</b>	<b>-</b>

- c) Securitisation exposures retained or purchased

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

(₹ in 000s)

Risk Weight Bands	30 September 2013	30 September 2012
Exposures subject to Comprehensive Risk Measure for specific risk	20,267,599	17,505,690
Exposures subject to the securitisation framework for specific risk		
<100% risk weight	20,267,599	17,505,690
100% risk weight	-	-
>100% risk weight	-	-
<b>Total</b>	<b>20,267,599</b>	<b>17,505,690</b>

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

(₹ in 000s)

Risk Weight Bands	30 September 2013	30 September 2012
<100% risk weight	360,756	316,794
100% risk weight	-	-
>100% risk weight	-	-
<b>Total</b>	<b>360,756</b>	<b>316,794</b>

e) Securitisation exposures deducted from capital

As at 30 September 2013			(₹ in 000s)
Exposure Type	Exposures deducted entirely from Tier-1 capital	Credit enhancing I/Os deducted from total capital	Other exposures deducted from total capital
	-	-	-

As at 30 September 2012			(₹ in 000s)
Exposure Type	Exposures deducted entirely from Tier-1 capital	Credit enhancing I/Os deducted from total capital	Other exposures deducted from total capital
	-	-	-

## 7. Market Risk

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

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

### 7.1. Market Risk Governance

The GRC approves the Group's market risk appetite taking account of market volatility, the range of products and asset classes, business volumes and transaction sizes. The Group Market Risk Committee (GMRC), under

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

authority delegated by the GRC, is responsible for setting VaR as the primary market risk measure within the Group's risk appetite. The GMRC is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books. At a country level, there is an independent market risk function to implement Group market risk policies/limits and to monitor the market risk exposures in accordance with Group and local governance/regulatory norms.

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

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

### *Value at Risk*

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

### *Back Testing*

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

### *Stress Testing*

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

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

Regular stress test scenarios are applied to interest rates, credit spreads, exchange rates and equity prices thereby covering asset classes in the Financial Markets (FM) non-trading and trading books. Ad hoc scenarios are

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

also prepared, reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

### 7.2. Foreign Exchange Exposure

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

### 7.3. Interest Rate Exposure

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

### 7.4. Derivatives

#### *Structure and organisation of management of risk in derivatives trading*

The derivatives business is managed by the front office with independent back office for confirmation and settlement of trades. A separate middle office team validates all the derivative transactions and the processing and settlement is done by the back office team. The market risk team is responsible for monitoring market risk limits for derivative instruments. The limits comprise of PV01, NOP, Vega, spot volatility matrix and VaR limits. There is clear segregation of duties and different reporting lines to ensure independent monitoring and reporting.

#### *Risk monitoring team*

The Bank is exposed to market risk, liquidity risk, operational risk and credit risk on the derivatives portfolio. The Bank's risk management group, compliance group and internal audit group assist in identifying, assessing and monitoring of these principal risks in accordance with policies and procedures.

For further details please refer to para 9 below.

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

Interest rate risk from across the non-trading book portfolios is transferred to FM where it is managed by the local ALM desk under the supervision of ALCO. The ALM desk deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits. VaR and stress tests are applied to non-trading book exposures in the same way as for the trading book.

The impact on market value of equity for a 200 basis upward move (in ₹ 000's) as at 30 September 2013 is ₹ 1,821,079 (previous year: ₹ 8,942,296).

## 9. Counterparty Credit Risk;

### 9.1. Credit Limits and Collaterals

Counterparty credit risk (CCR) is the risk that a Bank's counterparty defaults in a FX, interest rate, commodity or credit derivative contract prior to or at the maturity date of the contract and that the Bank at the time has a claim on the counterparty. The Credit Initiation and Approval Policy governs CCR; its management is the

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

responsibility of CRC. The credit risk arising from all financial derivatives is managed as part of the overall credit limits to both financial institutions and other clients and customers.

Exposure values for regulatory capital purposes on over the counter traded products are calculated according to the CCR Current Exposure Method. This is calculated as the sum of the current replacement cost and the PFE. The current replacement cost is the amount owed by the counterparty to the Bank for various financial derivative transactions. The PFE is an add-on based on a percentage of the notional principal of each transaction. These percentages are prescribed by the RBI in the guidelines and vary according to the underlying asset class and tenor of each trade.

The Group has a credit risk economic capital model which is managed centrally. The model uses obligor-level Monte Carlo simulation parameterised with internal data to capture various elements of credit risk including CCR.

The Bank seeks to negotiate Credit Support Annexes (CSA) to International Swaps and Derivatives Association master agreements with counterparties on a case-by-case basis, where collateral is deemed a necessary or desirable mitigant to the exposure. The credit terms of the CSA are specific to each legal document and determined by the credit risk approval unit responsible for the counterparty. The nature of the collateral will be specified in the legal document and will typically be cash or highly liquid securities.

A daily operational process takes place to calculate the MTM on all trades captured under the CSA. Additional collateral will be called from the counterparty if total uncollateralised MTM exposure exceeds the threshold and minimum transfer amount specified in the CSA. Additional collateral may be required from the counterparty to provide an extra buffer to the daily variation margin process.

The Bank further reduces its credit exposures to counterparties by entering into contractual netting agreements which result in a single amount owed by or to the counterparty through netting the sum of the positive (amounts owed by the counterparty) and negative (amounts owed by the Bank) MTM values of these transactions.

In India, the Bank follows SA for credit risk and hence no credit reserve is set aside. However, provisioning for the exposures on derivative contracts is made as prescribed by RBI Circular No. DBOD.No.BP.BC.2/21.06.201/2013-14 dated 01 July 2013.

### **9.2. Wrong Way Risk**

Wrong way risk occurs when an exposure increase is coupled with a decrease in the credit quality of the obligor. The Group/Bank employs various policies and procedures to ensure that wrong way risk exposures are monitored. For example, as the MTM on a derivative contract increases in favour of the Bank, the counterparty may increasingly be unable to meet its payment, margin call or collateral posting requirements.

### **9.3. Impact of Credit Rating Downgrade**

In line with market convention, the Bank negotiates CSA terms for certain counterparties where the thresholds related to each party are dependent on their External Credit Assessment Institution (ECAI) long term rating. Such clauses are typically mutual in nature. It is therefore recognised that a downgrade in the Group's rating could result in counterparties seeking additional collateral calls to cover negative MTM portfolios where thresholds are lowered.

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

### 9.4. Quantitative Disclosures

Particulars	30.09.2013	30.09.2012
Gross positive fair value of contracts	274,360,545	213,606,326
Netting benefits	-	-
Netted current credit exposure	274,360,545	213,606,326
Collateral held (including type, e.g. cash, government securities, etc.)	-	-
Net derivatives credit exposure	274,360,545	213,606,326
Potential future exposure	237,637,428	274,744,112
Measures for exposure at default or exposure amount under CEM	511,997,973	488,350,438
The notional value of credit derivative hedges	-	-
Distribution of current credit exposure by types of credit exposure		
- Interest Rates	148,532,540	139,301,288
- Fx	363,465,433	349,049,150

For capital requirement details, refer “Minimum Regulatory Capital Requirements” under para 4.6 of this disclosure.

### 10. Operational Risk

OR is the potential for loss arising from the failure of people, processes, technology or the impact of external events. It is the Bank’s objective to minimise exposure to OR, subject to cost trade-offs. The Bank’s exposure to OR arises as a consequence of its business activities. The Bank seeks to control operational risks to ensure that operational losses do not cause material damage to the franchise.

The Group OR Framework governs the management of OR. The Group Operational Risk Committee (GORC) oversees the management of OR across the Group, supported by business, functional and country-level committees. Group OR is responsible for setting and maintaining standards for OR management and measurement. Locally, this is managed by the CORC, which exercises oversight of the Bank’s OR exposures to ensure that it is managed in a manner consistent with the RMF. All OR committees operate on the basis of a defined structure of delegated authorities and terms of reference, derived from the GRC.

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

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



## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

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

### 11. Other Key Risks

#### 11.1. Liquidity Risk

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

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

#### 11.2. Reputational Risk

Reputational risk is the potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions.

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

Reputational risk is recorded and reviewed by the Country Head of Corporate Affairs, and key issues are flagged to the CRC and relevant business heads. Reputational risk is reported to the CEO through the CRC. Whilst the CRC covers all forms of reputational risk in country, business related reputational risks are also discussed and escalated to Group Communications Management team. Corporate Affairs representatives sit on CORC and CRC. Monthly reporting from Corporate Affairs to Group Communications Management team is in place to ensure that significant risks are duly escalated.

A fast track reporting process outside the normal reporting process is in place to respond to ad hoc issues or events which pose potential reputational risk to the Bank. The process involves alerting the appropriate level of the Bank and the Group promptly to give as much time as possible for steps to be taken to limit damage to its reputation.

### 12. Monitoring

Monitoring of risk management is achieved through independent reviews by RCO, GIA, Compliance, concurrent audits and spot checks by the external specialists as required under regulations.

To ensure the effectiveness of risk management processes in maintaining the risk profile of the Bank within risk appetite, the Bank maintains a three 'lines of defence' framework - refer para 5.1 above for further details.

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

### 13. Basel III common disclosure template

Basel III common disclosure template		Solo Bank*		Consolidated Basis*	
		Basel III Amounts	Amounts Subject to Pre-Basel III Treatment	Basel III Amounts	Amounts Subject to Pre-Basel III Treatment
INR Mn					
Common Equity Tier 1 (CET1) capital: instruments and reserves					
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	27,258	-	27,258	-
2	Retained earnings	69,713	-	71,132	-
3	Accumulated other comprehensive income (and other reserves)	61,478	-	61,478	-
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)</i>	-	-	-	-
	<b>Public sector capital injections grandfathered until 1 January 2018</b>	-	-	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-	6,170	-
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	158,449	-	166,038	-
Common Equity Tier 1 capital: regulatory adjustments					
7	Prudential valuation adjustments	-	-	-	-
8	Goodwill (net of related tax liability)	-	-	-	-
9	Intangibles other than mortgage-servicing rights (net of related tax liability)	1.3	5	5	18
10	Deferred tax assets	3,226	12,903	3,233	12,932
11	Cash-flow hedge reserve	-	-	-	-
12	Shortfall of provisions to expected losses	-	-	-	-
13	Securitisation gain on sale	-	-	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-	-	-
15	Defined-benefit pension fund net assets	-	-	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-	-	-
17	Reciprocal cross-holdings in common equity	-	-	-	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-	-	-
20	Mortgage servicing rights (amount above 10% threshold)	-	-	-	-

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

Basel III common disclosure template		Solo Bank*		Consolidated Basis*	
		Basel III Amounts	Amounts Subject to Pre- Basel III Treatment	Basel III Amounts	Amounts Subject to Pre- Basel III Treatment
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-	-	-
22	Amount exceeding the 15% threshold	-	-	-	-
23	of which: significant investments in the common stock of financial entities	-	-	-	-
24	of which: mortgage servicing rights	-	-	-	-
25	of which: deferred tax assets arising from temporary differences	-	-	-	-
26	National specific regulatory adjustments (26a+26b+26c+26d)	-	-	-	-
26a	of which: Investments in the equity capital of the unconsolidated insurance subsidiaries	-	-	-	-
26b	of which: Investments in the equity capital of unconsolidated non-financial subsidiaries	-	-	-	-
26c	of which: Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank	-	-	-	-
26d	of which: Unamortised pension funds expenditures	-	-	-	-
	Regulatory Adjustments Applied to Common Equity Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment	3	-	3	-
	of which: HO Debit Balance (20%)	3	-	3	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	12,918	-	12,961	-
28	<b>Total regulatory adjustments to Common equity Tier 1</b>	16,148	-	16,201	-
29	<b>Common Equity Tier 1 capital (CET1)</b>	142,301	-	149,837	-
	Additional Tier 1 capital: instruments	-	-	-	-
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	-	-	-	-
31	of which: classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)	-	-	-	-
32	of which: classified as liabilities under applicable accounting standards (Perpetual debt Instruments)	-	-	-	-
33	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-	-	-	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-	-	-
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	-	-	-
36	<b>Additional Tier 1 capital before regulatory adjustments</b>	-	-	-	-
	Additional Tier 1 capital: regulatory adjustments	-	-	-	-
37	Investments in own Additional Tier 1 instruments	-	-	-	-

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

Basel III common disclosure template		Solo Bank*		Consolidated Basis*	
		Basel III Amounts	Amounts Subject to Pre- Basel III Treatment	Basel III Amounts	Amounts Subject to Pre- Basel III Treatment
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-	-	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-	-	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) <sup>10</sup>	-	-	-	-
41	National specific regulatory adjustments (41a+41b)	-	-	-	-
41a	Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries	-	-	-	-
41b	Shortfall in the Additional Tier 1 capital of majority owned financial entities which have not been consolidated with the bank	-	-	-	-
	Regulatory Adjustments Applied to Additional Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment	-	-	-	-
	of which:	-	-	-	-
	of which:	-	-	-	-
	of which:	-	-	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	-
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	-	-	-	-
44	<b>Additional Tier 1 capital (AT1)</b>	-	-	-	-
44a	<b>Additional Tier 1 capital reckoned for capital adequacy</b>	-	-	-	-
45	<b>Tier 1 capital (T1 = CET1 + AT1) (29 + 44a)</b>	142,301	-	149,837	-
	Tier 2 capital: instruments and provisions				
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-	-	-
47	Directly issued capital instruments subject to phase out from Tier 2	21,998	-	21,998	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-	-	-
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	-	-	-
50	Provisions and revaluation reserves	11,335	-	11,357	-
51	<b>Tier 2 capital before regulatory adjustments</b>	33,333	-	33,355	-
	Tier 2 capital: regulatory adjustments				

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

Basel III common disclosure template		Solo Bank*		Consolidated Basis*	
		Basel III Amounts	Amounts Subject to Pre- Basel III Treatment	Basel III Amounts	Amounts Subject to Pre- Basel III Treatment
52	Investments in own Tier 2 instruments	-	-	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-	-	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-	-	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-	-	-
56	National specific regulatory adjustments (56a+56b)	-	-	-	-
56a	of which: Investments in the Tier 2 capital of unconsolidated subsidiaries	-	-	-	-
56b	of which: Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the bank	-	-	-	-
	Regulatory Adjustments Applied To Tier 2 in respect of Amounts Subject to Pre-Basel III Treatment	-	-	-	-
	of which: Investment in Subsidiaries	-	-	-	-
	of which: [INSERT TYPE OF ADJUSTMENT]	-	-	-	-
57	<b>Total regulatory adjustments to Tier 2 capital</b>	-	-	-	-
58	<b>Tier 2 capital (T2)</b>	33,333	-	33,355	-
58a	<b>Tier 2 capital reckoned for capital adequacy</b>	33,333	-	33,355	-
58b	<b>Excess Additional Tier 1 capital reckoned as Tier 2 capital</b>	-	-	-	-
58c	<b>Total Tier 2 capital admissible for capital adequacy (58a + 58b)</b>	33,333	-	33,355	-
59	<b>Total capital (TC = T1 + T2) (45 + 58c)</b>	175,634	-	183,192	-
	Risk Weighted Assets in respect of Amounts Subject to Pre-Basel III Treatment				
	of which:				
60	Total risk weighted assets (60a + 60b + 60c)	1,518,744	-	1,531,845	-
60a	of which: total credit risk weighted assets	1,322,538	-	1,332,829	-
60b	of which: total market risk weighted assets	77,274	-	77,296	-
60c	of which: total operational risk weighted assets	118,932	-	121,720	-
	Capital Ratios				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	9.37%		9.78%	
62	Tier 1 (as a percentage of risk weighted assets)	9.37%		9.78%	
63	Total capital (as a percentage of risk weighted assets)	11.56%		11.96%	

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

Basel III common disclosure template		Solo Bank*		Consolidated Basis*	
		Basel III Amounts	Amounts Subject to Pre- Basel III Treatment	Basel III Amounts	Amounts Subject to Pre- Basel III Treatment
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)	-	-	-	-
65	of which: capital conservation buffer requirement	-	-	-	-
66	<i>of which: bank specific countercyclical buffer requirement</i>	-	-	-	-
67	<i>of which: G-SIB buffer requirement</i>	-	-	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets) National minima (if different from Basel III)	-	-	-	-
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	-	-	-	-
70	National Tier 1 minimum ratio (if different from Basel III minimum)	-	-	-	-
71	National total capital minimum ratio (if different from Basel III minimum)  Amounts below the thresholds for deduction (before risk weighting)	-	-	-	-
72	Non-significant investments in the capital of other financial entities	-	-	-	-
73	Significant investments in the common stock of financial entities	-	-	-	-
74	Mortgage servicing rights (net of related tax liability)	-	-	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability) Applicable caps on the inclusion of provisions in Tier 2	-	-	-	-
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	-	-	-
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-	-	-	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-	-	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach <i>Capital instruments subject to phase-out arrangements</i> <i>(only applicable between March 31, 2017 and March 31, 2022)</i>	-	-	-	-
80	<i>Current cap on CET1 instruments subject to phase out arrangements</i>	-	-	-	-
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	-	-	-	-
82	<i>Current cap on AT1 instruments subject to phase out arrangements</i>	-	-	-	-
83	<i>Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)</i>	-	-	-	-

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

Basel III common disclosure template		Solo Bank*		Consolidated Basis*	
		Basel III Amounts	Amounts Subject to Pre- Basel III Treatment	Basel III Amounts	Amounts Subject to Pre- Basel III Treatment
84	<i>Current cap on T2 instruments subject to phase out arrangements</i>	-	-	-	-
85	<i>Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>	-	-	-	-

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

## Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

### Disclosure template for main features of regulatory capital instruments:

S.NO.	Item	Details
1	Issuer	Standard Chartered Bank, India Branches
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	-Reserve Bank Of India Act, 1934 -Banking Regulation Act, 1949 -Circulars issued by Reserve Bank of India
4	Transitional Basel III rules	Tier 2
5	Post-transitional Basel III rules	Ineligible
6	Eligible at solo/group/ group & solo	Solo and Group
7	Instrument type	Tier 2 Subordinated Debt
8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	2 Tranches of Subordinated Debt raised from Head Office of which INR 21,998mn is the amount recognised as regulatory capital as at 30 September 2013
9	Par value of instrument	Tranche 1 –US \$250mn Tranche 2- US \$250mn
10	Accounting classification	Liability (Borrowings Outside India -Subordinated Debt )
11	Original date of issuance	Tranche 1 - 3rd March 2008 Tranche 2 - 30th June 2008
12	Perpetual or dated	Dated
13	Original maturity date	Tranche 1 - 2nd March 2018 Tranche 2 - 29th June 2018
14	Issuer call subject to prior supervisory approval	Issuer call is subject to RBI regulations and approvals on the same
15	Optional call date, contingent call dates and redemption amount	Call option only in case of regulatory event but subject to RBI approval
16	Subsequent call dates, if applicable Coupons / dividends	NA
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Tranche 1 - LIBOR + 220 Basis Points Tranche 2 - LIBOR + 250 Basis Points
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No



Risk review and disclosures under Basel III Framework for the period ended 30 September 2013

S.NO.	Item	Details
22	Noncumulative or cumulative	Non Cumulative
23	Convertible or non-convertible	Non- Convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to all other external liabilities
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	It does not contain write-down/conversion feature to enable loss absorbency