Barclays Bank PLC – Indian Branches
(Incorporated in the United Kingdom with limited liability)

Basel II disclosures of the India Branches for the year ended 31 March 2008

1. SCOPE OF APPLICATION

Barclays Bank PLC – Indian Branches (the "Bank ") is a branch of Barclays Bank PLC, which is incorporated in the United Kingdom with limited liability. The Bank has been operating in India since 1990 and has now 5 branches in India. The financial statements have been prepared in accordance with generally accepted accounting principles on the historical cost basis and conform to the statutory provisions, guidelines issued by the Reserve Bank of India ('RBI') and practices prevailing within the banking industry in India.

2. CAPITAL STRUCTURE

During the year ended 31 March 2008, the Bank infused capital of Rs. 34,655,465 ('000s) from Barclays Bank PLC - UK (Head Office). As a consequence the Capital of the Bank has increased to Rs. 46,028,223 ('000s).

The capital infused was utilized for enhancing the capital adequacy ratio and for general corporate purposes. The capital structure of the Bank as at 31st March 2008 is as follows

Capital Structure As at 31st March 2008

(Rs. In '000s)

		Amount
A	**Tier 1 Capital**	**48,217,093**
	of which	
	-Paid-up Share Capital	46,028,224
	-Reserves and surplus	2,575,888
	-Amount deducted from Tier1 capital (deferred tax asset)	387,018
B	**Tier 2 Capital**	**704,935**
	of which	
B.1	Other Tier 2 Capital:	
	- Provision for Standard Assets	703,885
	- Provision for Country Risk	1,051
C	**Total Eligible Capital**	**48,922,029**

3. CAPITAL ADEQUACY

Barclays group operates a centralised capital management model, considering both regulatory and economic capital. Decisions on the allocation of capital resources, conducted as part of the strategic planning review, are based on a number of factors including returns on economic and regulatory capital. The Bank assesses the capital requirement through a comprehensive projection of future business that takes cognizance of the strategic intent of the Bank, profitability of particular businesses, opportunities of growth, etc. The proper mapping of credit, operational and market risks to the above and the group EC framework (which uses a 99.98% confidence level and a time horizon that varies to reflect the time taken to mitigate a risk position) enables assignment of capital to not only adequately cover the minimum regulatory capital requirement but also provides headroom for growth.

A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 31st March 2008 is presented below.

		(Rs. In '000s) Amount
A	Capital requirements for credit risk:	**16,661,882**
	-Portfolios subject to standardized approach	16,661,882
B	Capital requirements for Market Risk:	**3,841,537**
	-Standardised duration approach:	
	-Interest rate risk	3,582,085
	- Foreign exchange risk (including gold)	225,000
	- Equity risk	34,452
C	Capital requirements for operational risk:	**349,777**
	-Basic indicator approach	349,777
D	Capital Adequacy Ratio of the Bank (%)	21.11%
E	Tier 1 CRAR (%)	20.81%

4. RISK MANAGEMENT: OBJECTIVES AND ORGANISATION STRUCTURE

Barclays group approach to risk management involves a number of fundamental elements that drive our processes across the Group:

The Group's Risk appetite sets out the level of risk that the Bank is willing to take in pursuit of its business objectives. This is expressed as the Group's appetite for earnings volatility across all businesses from credit, market, and operational risk. It is calibrated against our broad financial targets, including income and impairment targets, dividend coverage and capital levels. It is prepared each year as part of the Group's Medium Term Planning process, and combines a top-down view of the Bank's risk capacity with a bottom-up view of the risk profile requested and recommended by each business.

Barclays Risk methodologies include systems that enable the Group to measure, aggregate and report risk for internal and regulatory purposes. As an example, our credit grading models produce Internal Ratings through internally derived estimates of default probabilities. These measurements are used by management in an extensive range of decisions, from credit grading, pricing and approval to portfolio management, economic capital allocation and capital adequacy processes

GOVERNANCE STRUCTURE AT GROUP LEVEL

The Committees of the group shown below receive regular and comprehensive reports. The Board Risk Committee receives a quarterly report covering all of our principal risks. The Board Audit Committee receives quarterly reports on control issues of significance and half-yearly impairment allowances and regulatory reports. Both Committees also receive reports dealing in more depth with specific issues

Barclays Bank PLC – Indian Branches
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relevant at the time. The proceedings of both Committees are reported to the full Board, which also receives a concise quarterly risk report. Internal Audit supports both Committees by attendance and/or the provision of quarterly reports resulting from its work on governance, risk and control issues of significance. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit.

An assessment by external advisers is also carried out periodically.

In addition to the Committees shown in the chart, there is a Brand and Reputation Committee reviewing emerging issues with potentially significant reputational impact.

Governance structure at Group level

Board oversight

Board
- Approves overall Group risk appetite.

Board Audit Committee
- Considers the adequacy and effectiveness of the Group Control Framework.
- Reviews reports on control issues of Group-level significance.

AUTHORITY CONTROLS APPETITE

Board Risk Committee
- Review the Group risk profile.
- Approves the Group Control Framework.
- Approves minimum control requirements for principal risks.

Risk adjusted performance

ASSURANCE

Group Chief Executive
Group Executive Committee
- Monitors and manages risk adjusted performance of businesses.

REPORTING AND CONTROL

Governance and Control Committee
- Reviews the adequacy and effectiveness of the Group Control Framework.
- Monitors compliance with the Framework including remediation of significant control issues.
- Reviews reports on control issues of Group-level significance.

Risk Oversight Committee
- Ensures current risk profile is consistent with Group risk appetite.
- Debates and agrees actions on the risk profile and risk strategy across the Group.
- Considers issues escalated by Risk Type Heads and Business Risk Directors.

Treasury Committee
- Sets policy/controls for liquidity, maturity transformation and structural interest rate exposure.
- Monitors the Group's liquidity and interest rate maturity mismatch.
- Monitors usage of regulatory and economic capital.
- Oversees the management of the Group's capital plan.

Assurance

Internal Audit
- Assesses the adequacy and effectiveness of the Group Control Framework.
- Assesses management assurance processes.

In addition to the above, Global Financial Risk Management (GFRM), Local ALCO and Local Governance committee operates within their broad policy framework reviews and monitors various aspects of risk arising from the business.

5 CREDIT RISK

Credit risk is the risk of suffering financial loss should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. The credit risk that the Bank faces arises mainly from positions in the trading book and commercial & consumer loans and advances, including credit card lending.

In managing credit risk, the Bank credit risk management process integrates risk management policies of group. Specific credit risk management objectives are:

- To gain a clear and accurate understanding and assessment of credit risk across the business, from the level of individual facilities up to the total portfolio.
- To control and plan the taking of credit risk, ensuring it is coherently priced across the business and avoiding undesirable concentrations.
- To support strategic growth and decision-making based on sound credit risk management principles and a pro-active approach to identifying and measuring new risks.
- To ensure a robust framework for the creation, use and ongoing monitoring of the Bank's credit risk measurement models.
- To ensure that our balance sheet correctly reflects the value of our assets in accordance with accounting principles.

ORGANISATION AND STRUCTURE

Barclays has structured the responsibilities of credit risk management so that decisions are taken as close as possible to the business, whilst ensuring robust review and challenge of performance, risk infrastructure and strategic plans.

The credit risk management teams in each business are accountable to the Business Risk Directors in those businesses who, in turn, report to the heads of their businesses and also to the Risk Director.

These credit risk management teams assist Group Risk in the formulation of Group Risk policy and its implementation across the businesses. Examples include:

- maximum exposure guidelines to limit the exposures to an individual customer or counterparty
- country risk policies to specify risk appetite by country and avoid excessive concentration of credit risk in individual countries
- policies to limit lending to certain industrial sectors

Within Group Risk, the Credit Risk function provides Group-wide direction of credit risk-taking. This functional team manages the resolution of all significant credit policy issues and runs the Credit Committee, which approves major credit decisions.

The principal Committees that review credit risk management, formulate overall Group credit policy and resolve all significant credit policy issues are the Group Wholesale Credit Risk Management Committee, the Group Retail Credit Risk Management Committee, the Risk Oversight Committee and the Board Risk

Committee. The Board Audit Committee also reviews the impairment allowance as part of financial reporting.

MEASUREMENT, REPORTING AND INTERNAL RATINGS

The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of the credit risk to which the Bank and the group is exposed, from the level of individual facilities up to the total portfolio.

The key building blocks in this quantitative assessment are:

- Probability of default (PD)
- Exposure in the event of default (EAD)
- Severity of loss given default (LGD)

The three components described above – the probability of default, exposure at default and loss given default – are building blocks used in a variety of applications that measure credit risk across the entire portfolio.

Two examples are Risk Tendency (RT) and Expected Loss (EL) which are statistical estimates of the average loss for the loan portfolio for a 12-month period, taking into account the portfolio's size and risk characteristics under either current credit conditions (RT) or average credit conditions (EL). As such, RT uses a point-in-time PD while EL uses a through-the-cycle PD but the basic calculation is the same for both:

PD x EAD x LGD

Since through-the-cycle PDs provide a measure of risk that is independent of the current credit conditions for a particular customer type, they are more stable than point-in-time ratings. RT and EL provide insight into the credit quality of the portfolio and assist management in tracking risk changes as the Bank and the Group's stock of credit exposures evolves in size or risk profile in the course of business.

Also the Commercial and Retail banking business uses rating tools specific to each market segment that it operates in, namely business banking, SME and large corporates. These models have been validated by the Group Modeling Team. The credit rating model uses various quantitative inputs and qualitative inputs to arrive at rating of counterparty. Each rating corresponds to a probability of default. The rating tools are reviewed and revalidated periodically.

The Bank uses an electronic credit appraisal tool called International Credit Adviser (ICA) for the process of credit appraisal in the commercial banking business. The credit appraisal comments upon management, industry, peer comparison, business model as well as the analysis of the historical financials and the projections. Stress is laid on the repayment capacity of the borrower based on cash flow analysis and the lending decision is not based merely on the availability of the security. Based on the analysis of the strengths and weaknesses of the proposal, the sanctioning authority would take a view on whether an unsecured exposure may be taken, or alternatively on the nature and value of security required.

Industry caps are put in place and monitored to control industry concentrations. Appropriate covenants and financial triggers are stipulated in the sanction for effective monitoring of the financial health of the borrower.

A dedicated Credit Administration and Documentation team is in place for the purpose of documentation execution & safekeeping as well control and monitoring of the portfolio. Financial excesses are monitored

on a daily basis and other post sanction conditions as well as non-financial deficiencies/anomalies are tracked and reported to management periodically

Each credit limit is subject to a full review at least once a year. Financial triggers and covenants are monitored more frequently, normally on a quarterly basis. Portfolio quality reporting is done on a monthly basis to group as well as local management.

Customers with emerging credit problems are identified through an early watch list process and the management of these accounts is done in consultation with the Business Support and Recovery Team.

For retail loans, product policies have been aligned to bureau score in order to standardise decision making process. The department conducts monthly portfolio reviews to identify segments which need attention and make policy amendments accordingly.

CREDIT RISK CONCENTRATION RISK AND RISK MITIGANTS

A risk concentration is any single exposure or a group of exposures with the potential to produce losses large enough (relative to a bank's capital, total assets, or overall risk level) to threaten a bank's health or ability to maintain its core operations.

The Bank monitors the Exposure norms on a weekly basis as prescribed by Reserve Bank of India vide its Master circular on Exposure norms DBOD.No.Dir.BC.11/13.03.00/ 2007-08. The exposure ceiling limits would be 15 percent of capital funds in case of a single borrower and 40 percent of capital funds in the case of a borrower group. Credit exposure to a single borrower may exceed the exposure norm of 15 percent of the bank's capital funds by an additional 5 percent (i.e. up to 20 percent) provided the additional credit exposure is on account of extension of credit to infrastructure projects. Credit exposure to borrowers belonging to a group may exceed the exposure norm of 40 percent of the bank's capital funds by an additional 10 percent (i.e., up to 50 percent), provided the additional credit exposure is on account of extension of credit to infrastructure projects. In addition to the exposure permitted above, banks may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower up to a further 5 percent of capital funds.

The Bank controls and limits concentration risk of its commercial and retail businesses by:

- ☑ Maximum Hold caps for individual borrowers
- ☑ Percentage of unsecured loans to total loan and advances.
- ☑ Rating-wise distribution of its borrowers.
- ☑ Defining Industry / Sectoral caps as a percentage of total portfolio
- ☑ Caps/ Limits in terms of absolute amounts for certain sectors which are identified as higher risk.

The Group uses a wide variety of techniques to reduce credit risk on its lending. The most basic of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. In addition, the Group commonly obtains security for the funds advanced, such as a floating charge over book debts and inventories. The Group ensures that the collateral held is sufficiently liquid, legally effective, enforceable and regularly valued.

The Group also uses various forms of specialised legal agreements to reduce risk, including netting agreements which permit it to offset positive and negative balances with customers in certain circumstances to minimise the exposure at default, financial guarantees, and the use of covenants in commercial lending agreements.

Credit risk mitigation to address concentrations takes several dimensions. Maximum exposure guidelines are in place relating to the exposures to any individual counterparty. These permit higher exposures to highly rated borrowers than to lower rated borrowers. They also distinguish between types of counterparty, for example, between sovereign governments, banks and corporations.

Country concentrations are addressed through the country risk policy, which specifies Risk Appetite by country and avoids excessive concentrations of credits in individual countries. Country risk grades are assigned to all countries where the Group has, or is likely to have, exposure and are reviewed regularly to ensure they remain appropriate.

The Bank accepts the following Collaterals which are recognised as Credit Risk Mitigants under the Standardised approach – Basel II:

- ☑ Cash or Cash equivalent (Bank Deposits/NSCs/KVP/LIC Policy, etc.)
- ☑ Gold
- ☑ Securities issued by Central / State Governments
- ☑ Debt Securities rated BBB- or better/ PR3/P3/F3/A3 for Short-Term Debt Instruments

The Bank accepts the following entities as eligible guarantors, in line with RBI Guidelines:

- ☑ Sovereign, Sovereign entities (including BIS, IMF, European Central Bank and European Community as well as Multilateral Development Banks, ECGC and CGTSME, PSEs, Banks and Primary Dealers with a lower risk weight than the Counterparty.
- ☑ Other guarantors having an external rating of AA or better. In case the guarantor is a parent company, affiliate or subsidiary, they should enjoy a risk weight lower than the obligor for the guarantee to be recognised by the Bank. The rating of the guarantor should be an entity rating which has factored in all the liabilities and commitments (including guarantees) of the entity.

The Bank uses Credit Risk Mitigants (CRM) like financial collateral, non-financial collateral and guarantees to mitigate credit risk exposure. This has the effect of either reducing the effective exposure on the borrower (in case of collaterals) or transfer of the risk to the more creditworthy party (in case of guarantees). For retail loans portfolio, risk mitigation is done through regular analysis of the portfolio performance & weeding out the non performing segments. Strong policy norms supported by able underwriting & efficient systems also help in risk mitigation. Additionally, the department has set triggers which are tracked on a monthly basis to assess if the performance of the portfolio is satisfactory

Definitions of Non-Performing Assets

Advances are classified into performing and non-performing advances (NPAs) as per RBI guidelines. NPAs are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. An asset becomes non-performing when it ceases to generate income for the bank.

An NPA is a loan or an advance where:

a) Interest and /or installment of principal remains overdue for a period of more than 90 days in respect of a term loan
b) The account remains "out-of order" in respect of an Overdraft or Cash Credit (OD/CC)
c) The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted.
d) Any amount to be received remains 'overdue' for a period of more than 90 days in respect of other accounts.
e) A loan granted for short duration crops is treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons and a loan granted for long duration crops is

treated as NPA, if instalment of principal or interest thereon remains overdue for one crop season.

f) An account would be classified as NPA if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.

'Out of Order' status

An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power.
In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Bank's Balance Sheet, or where credits are not enough to cover the interest debited during the same period, such accounts are treated as 'out of order'.

'Overdue'

Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.

Definition of Impairment

At periodic intervals, the Bank ascertains if there is any impairment in its assets. If such an indication is detected, the Bank estimates the recoverable amount of the asset. If the recoverable amount of the asset or the cash generating unit, which the asset belongs to, is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. Credit risk management processes and policy are incorporated in the Bank's Loan Policy, which is reviewed periodically. The policy lays down the framework for credit risk assessment as well as post-sanction activities encompassing facility and security documentation, control & monitoring, portfolio management and problem resolution.

CREDIT RISK EXPOSURES

a) Total Gross Credit Risk Exposure Including Geographic Distribution of Exposure

(Rs. In '000s)

		Domestic	Overseas	Total
A)	Fund Based	78,690,092	-	78,690,092
B)	Non Fund Based *	13,575,862	154,050	13,729,912
	Total	**92,265,954**	**154,050**	**92,420,004**

The above comprises of Non Bank Counterparties only.
* Non-fund based exposures are guarantees given on behalf of constituents, letters of credit and acceptances and endorsements.

Barclays Bank PLC – Indian Branches
(Incorporated in the United Kingdom with limited liability)

b) Distribution of credit risk exposure by industry sector

(Rs. In '000s)

S.No.	Industry Classification	Fund Based	Non Fund based
1	Mining	-	-
2	Iron and Steel	4,158,971	403,210
3	Other Metal and Metal products	591,473	-
4	All Engineering	829,244	649,850
5	Electricity	-	-
6	Cotton Textiles	664,925	-
7	Jute Textiles	154,245	-
8	Other Textiles	2,936,430	234,720
9	Sugar	447	-
10	Tea	25,077	-
11	Food Processing	2,306,945	602,890
12	Vegetable Oil and Vanaspati	144,061	-
13	Tobacco and Tobacco Products	42,129	-
14	Paper and Paper Products	1,403,461	8,010
15	Rubber and Rubber Products	106,015	-
16	Chemicals, Dyes, Paints etc.	2,102,159	311,380
17	Cement	237,965	534,420
18	Leather and Leather Products	179,183	-
19	Gems and Jewellery	512,602	-
20	Construction	4,365,467	15,570
21	Petroleum	499,595	21,065
22	Automobiles including trucks	2,510,541	651,250
23	Computer Software	505,411	-
24	Infrastructure	385,823	22,660
25	NBFCs & Trading	1,250,000	250,000
26	Other Industries	22,553,065	5,096,170
27	Residual exposures to balance the total exposure	30,224,859	4,928,717
	Total	**78,690,092**	**13,729,912**

c) Residual Contractual Maturity Breakdown of Assets (Rs. In '000s)

S.No.	Maturity bucket	Amount
1	1 day	32,201,602
2	2 to 7 days	5,206,854
3	8 to 14 days	5,031,493
4	15 to 28 days	14,341,528
5	29 days to 3 months	12,683,513
6	3 to 6 months	5,926,627
7	6 to 12 months	8,498,435
8	1 to3 years	28,664,744
9	3 to 5 years	13,131,392
10	Over 5 years	3,595,211
	Total	**129,281,397**

Barclays Bank PLC – Indian Branches
(Incorporated in the United Kingdom with limited liability)

d) Movement of NPAs and Provision for NPAs

(Rs. In '000s)

		Amount
A	Amount of NPAs (Gross)	
	- Substandard	405,545
	-Doubtful 1	-
	-Doubtful 2	-
	-Doubtful 3	-
	- Loss	124,740
B	Net NPAs	-
C	NPA Ratios	
	-Gross NPA to gross advances	0.69%
	-Net NPAs to Net advances	0.42%
D	Movement of NPAs (Gross)	
	-Opening balance as on 1.4.2007	-
	-Additions	530,285
	-Reductions	-
	-Closing balance as at 31.3.2008	530,285
E	Movement of Provision for NPAs	
	- Opening balance as on 1.4.2007	
	-Provision made in 2007-08	205,849
	- Write –offs	-
	- Write back of excess provisions	-
	- Closing balance	205,849

e) NPIs and movement of Provision for Depreciation on NPIs

(Rs. In '000s)

		Amount
A	Amount of Non-Performing Investments	
B	Amount of provision held for non – performing investments	
C	Movement of provisions for depreciation on investments	
	- Opening balance as on 1.4.2007	22,734
	-Provision made in 2007-08	85,055
	- Write –offs	
	- Write back of excess provisions	
	- Closing balance	107,789

Barclays Bank PLC – Indian Branches
(Incorporated in the United Kingdom with limited liability)

6 CREDIT RISK: Use of Rating Agency under the Standardised Approach

The Bank is using issuer ratings and short-term and long-term instrument ratings which are assigned by the accredited rating agencies viz. assigned by CRISIL, CARE, ICRA and Fitch and published in the public domain to assign risk-weights in terms of RBI guidelines. In respect of claims on non-resident corporates and foreign bank, ratings assigned by international rating agencies i.e. S&P, Moody's and Fitch.

1) Where the customer has availed a short term loan / working capital facilities with maturity equal to or less than one year, and where no short term rating is available from any of the recognized credit rating agency, the same shall be treated as **unrated** and risk weight corresponding to the unrated short term claim shall be applied.
2) Where the customer has availed a short term loan / working capital facilities with maturity equal to or less than one year, and where a short term rating is available from the recognized credit rating agency, risk weight applicable would be one notch higher as would be applicable for the rated facility
3) Cash Credit / Overdraft exposures shall be considered as long term exposures and treatment applicable to long term exposures shall be applied.
4) Long term ratings shall be applied to long term exposures only. Where the customer has availed of a medium term loan facility or any facility with maturity of greater than one year, the same shall be treated as unrated or as warranted by higher risk weight (read BB and below) on all facilities (whether short term or long term) would apply and risk weight corresponding to the unrated long term claim shall be applied. However, if the long term issue of a customer is rated BB or below, a risk weight of 150% shall be applied for long term exposures on the company.

Details of Credit Risk Exposure based on Risk- Weight

(Rs. In '000s)

	Amount
Amount of bank's outstanding (rates and unrated) in the following :	
-Below 100% risk weight	28,754,951
- 100% risk weight	38,263,240
-More than 100% risk weight	25,401,813
-Deductions	

* The above comprises of Non Bank Counterparties only.

7 MARKET RISK IN TRADING BOOK

Market risk is the risk that Bank earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

Barclays market risk objectives are to:

- Understand and control market risk by robust measurement and the setting of position limits.
- Facilitate business growth within a controlled and transparent risk management framework.
- Minimize non-traded market risk.

The measurement techniques used to measure and control traded market risk include Daily Value at Risk and Stress Testing.

Daily Value at Risk (DVaR) on trading book is an estimate of the potential loss which might arise from unfavourable market movements, if the current positions were to be held unchanged for one business day, measured to a confidence level of 98%. DVaR uses the historical simulation method with a historic sample of two years. The credit spread calculation takes into account specific risks associated with different business names.

DVaR is an important market risk measurement and control tool and consequently the model is regularly assessed. The main approach employed is the technique known as back-testing which counts the number of days when trading losses exceed the corresponding DVaR estimate. To complement DVaR, stress testing is performed. Stress testing provides an indication of the potential size of losses that could arise in extreme conditions.

Liquidity Risk

Liquidity risk arises in any bank's general funding of its activities. As part of the liquidity management contingency planning, the bank assesses potential trends, demands, events and uncertainties that could reasonably result in adverse liquidity condition. The Bank's ALM policy defines the gap limits for the structural liquidity and the liquidity profile of the Bank. This is analyzed on a static basis as well as on a dynamic basis. Also, as part of Global practices, the Wholesale Borrowing (WBG) limits have been stipulated by Group Treasury. This WBG addresses the local currency and FX liquidity positions. The Bank undertakes behavioral analysis of the non-maturity products viz. savings and current deposits and cash credit/overdraft accounts on a periodic basis to ascertain the volatility of residual balances in those accounts. The bank's ability to meet its obligations and fund itself in a crisis scenario is critical and accordingly, daily liquidity projection is performed to access the impact on liquidity.

Capital requirement for Market Risk

(Rs. In '000s)

	Amount of Capital Required
- Interest rate risk	3,582,085
- Equity position risk	225,000
- Foreign exchange risk	34,452

8 OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses resulting from human factors, external events, and inadequate or failed internal processes and systems. Major sources of operational risk include: operational process reliability, IT security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, human error, customer service quality, regulatory compliance, recruitment, training and retention of staff, and social and environmental impacts.

Barclays is committed to the advanced management of operational risks. In particular, it has implemented improved management and measurement approaches for operational risk to strengthen control, improve customer service and minimise operating losses.

The Group's operational risk management framework aims to:

- Understand and report the operational risks being taken by the Group.
- Capture and report operational errors made.
- Understand and minimise the frequency and impact, on a cost benefit basis, of operational risk events.

Organisation and structure

Barclays has a Group Operational Risk Framework, which is consistent with and part of the Group Internal Control and Assurance Framework. Minimum control requirements have been established for all key areas of identified risk. The risk categories relevant to operational risks are Financial Crime, Financial Reporting, Taxation, Legal, Operations, People, Regulatory, Technology and Change. In addition the following risk categories are used for business risk: Brand Management, Corporate Responsibility and Strategic.

Responsibility for implementing and overseeing these policies is positioned throughout the organisation. The prime responsibility for the management of operational risk and the compliance with control requirements rests with the business and functional units where the risk arises. Frontline risk managers are widely distributed throughout the Group in business units. They service and support these areas, assisting line managers in managing these risks.

Business Risk Directors in each business are responsible for overseeing the implementation of and compliance with Group policies. Governance and Control Committees in each business monitor control effectiveness. The Group Governance and Control Committee receive reports from the committees in the businesses and consider Group-wide control issues and their remediation.

In the corporate centre, each Principal Risk is owned by a senior individual who liaises with Principal Risk owners within the businesses. In addition, the Operational Risk Director oversees the range of operational risks across the Group in accordance with the Group Operational Risk Framework.

Business units are required to report on both a regular and an event-driven basis. The reports include a profile of the key risks to their business objectives, control issues of Group-level significance, and operational risk events. Specific reports are prepared on a regular basis for the Group Risk Oversight Committee, the Board Risk Committee and the Board Audit Committee. In particular, the Group Operational Risk Profile and Group Operating Committee Report are provided quarterly to the Group Risk Oversight Committee. The Internal Audit function provides further assurance for operational risk control across the organisation and reports to the Board and senior management.

Operational risk measurement and capital modelling

Barclays applies a consistent approach to the identification and assessment of key risks and controls across all business units. Managers in the businesses use self-assessment techniques to identify risks, evaluate control effectiveness and monitor capability. Business management determines whether particular risks are effectively managed within business risk appetite and otherwise takes remedial action.

A standard process is used Group-wide for the recognition, capture, assessment, analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events. Risk events are loaded onto a central database and reported monthly to the Operational Risk Executive Committee.

Barclays also uses a database of external public risk events and is a member of the Operational Risk Data Exchange (ORX), an association of international banks that share anonymous loss data information to assist in risk identification, assessment and modelling.

By combining internal data, including internal loss experience, risk and control assessments, key indicators and audit findings, with external loss data and expert management judgment, Barclays is able to generate Key Risk Scenarios (KRSs), which identify the most significant operational risks across the Group. The KRSs are validated at business unit and at Group level to ensure that they appropriately reflect the level of operational risk. It is these that are the main input to our capital model.

Also the Commercial and Retail Banking Business in India carries out Detailed Risk and control Assessments (DRCA) for all key business, products, process, systems etc. The DRCAs are logged in the operational risk system (headed by the operational risk head of the country) and are reviewed periodically in the Risk and control committee meetings wherein the controls and action plan are self assessed.

All new products are introduced only on approval of products by the New Product committee wherein a detailed risk and control assessment is carried which is approved by all the relevant key stakeholders.

Approach for Operational Risk Capital Assessment

As per the RBI guidelines, Barclays Bank (India Branch) has followed the Basic Indicator Approach for the year ending 31st March 2008.

9 INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book is primarily the change in the net interest income and the value of the banks assets and liabilities, due to changes in interest rates.

Interest rate risk arises from providing retail and commercial (non-trading) banking products and services.

The Bank's approach is to transfer risk from the businesses to Treasury using an internal transfer price. Internal Limits exist to ensure there is no material risk retained within any business or product area.

The local Asset - Liability Management Committee (ALCO) is responsible for evolving appropriate systems and procedures for ongoing identification and analysis of Balance Sheet risks and laying down parameters for efficient management of these risks through Asset Liability Management Policy of the Bank. ALCO, periodically monitors and controls the risks and returns, funding and deployment, setting Bank's lending and deposit rates, etc.

Interest rate risk exposure of the banking book is primarily measured with Interest Rate Gap analysis and Value-at-Risk (VaR), as per the group norms.

(i) Earnings perspective:-

The estimated effect on net interest income due a 200 basis point parallel shift in interest rate, over a horizon of one year;

Rs in '000s

Currency	Interest rate shocks	
	2% increase	2% decrease
Rupees and other currency	(38,786)	38,786
US Dollar	51,308	(51,308)

(ii) Economic value perspective :-

Rs in '000s

Currency	Value at risk*
Rupees and other currency	1,910,538
US Dollar	169,336

*98% confidence level, one year horizon, variance - covariance method