



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 2010

1. BACKGROUND

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 Barclays Bank Plc. (UK) (“Group”) is regulated by its home regulator, viz. Financial Services Authority (FSA), in the United Kingdom (UK). The Bank has been operating in India since 1990 and has now 7 branches (licence for additional 2 branches received and Bank is in the process of setting up requisite infrastructure in place). 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.

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”), Accounting Standards (“AS”) issued by the Institute of Chartered Accountants of India (“ICAI”) to the extent applicable and practices prevailing within the banking industry in India.

2. OVERVIEW

The Basel Committee on Banking Supervision introduction of a three pillar concept to regulatory capital requirements aligns more closely with the economic principles of risk management. The new Accord, more commonly known as Basel II, was in 2007, adopted by the European Union and implemented by the FSA in UK. The RBI adopted the same in March 2008.

Basel II improves the soundness of the banking system by aligning regulatory capital more closely with the risks in banks' portfolios. While the previous Accord, Basel I, increased the overall level of capital in financial markets, Basel II aims to redistribute capital with the overall capital in the banking system maintained at the same level on average. Basel II introduces a more risk-based approach to regulatory capital with a distinct charge for operational risk, in addition to the existing credit and market risk capital charges.

The Basel II approach, based on 3 pillars, provides an incentive scheme encouraging banks to adopt more advanced risk management practices. To achieve this, Pillar 1 presents banks with a number of options, intended to result in smaller capital charges when the more sophisticated approaches are used, for a given level of risk in a portfolio.

Pillar 2 sets out the requirements for banks to assess aggregate risks. It presents a high level framework for the regulators to review the banks' own assessments of capital required to match these risks; the Group's 'risk appetite'. The Pillar 2 framework also provides the supervisors with powers to increase the regulatory capital charge over and above a bank's own estimates, if they feel that risks are understated.



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Pillar 3, covered in this report, aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

3. SCOPE OF BASEL II FRAMEWORK

3.1. Pillar 1

The Group and Bank recognise that Basel II is a driver for continuous improvement of risk management practices and believe that adoption of leading risk management practices are essential for achieving its strategic intent. Accordingly, the Group has adopted the Advanced Internal Ratings Based Approach (AIRB) and Value at Risk (VaR) model for the measurement of credit risk and market risk capital respectively and applies the standardised approach for determining its operational risk capital requirements. However, in accordance with mandatory local regulations, Bank has adopted standardised approaches for local regulatory Pillar 1 purposes and intends to apply to the RBI to migrate to advanced approaches whenever permitted.

During the initial years of Basel II implementation, the RBI has stipulated that the minimum risk weighted assets (excluding operation risk) under Pillar 1 must not be less than 80% of the Basel I RWAs in March 2010 and extended period as may be prescribed by RBI.

3.2. Pillar 2

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

The Barclays Bank Group has developed an ICAAP framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Group's current and projected demand for capital under expected and stressed conditions. Bank in India has developed its ICAAP in line with the RBI's guidelines and aligned the same to the Group's ICAAP framework.

3.3. Pillar 3

The Bank has implemented a Pillar 3 framework to address the requirements laid down for Pillar 3 disclosures.

The risk related disclosures and analysis provided herein below, are primarily in the context of the disclosures required under the RBI's Pillar 3 – Market Discipline of the New Capital Adequacy Framework (commonly referred to as NCAF) and are in respect of Bank's Indian branch operations.



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The information provided has been reviewed and validated by senior management and the Local Governance Committee ('LGC') and is in accordance with the guidelines prescribed by the RBI.

4. CAPITAL STRUCTURE

Capital Structure / Instruments of Barclays BankPlc. Indian Branches

Tier 1 capital mainly comprises of:

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

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

Tier 2 capital mainly comprises of:

- i. General provisions on standard (performing) assets created in line with RBI regulations.
- ii. Revaluation reserves created due to revaluation of immovable properties in accordance of Indian GAAP, discounted by 55%.
- iii. Subordinated debts, both, local currency and foreign currency instruments.

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

As on March 31, 2010 capital base (Tier 1+Tier 2) of the India entity stood at Rs. 41,994,868

A	Tier 1 Capital	40,711,688
	of which	
	-Paid-up Share Capital	52,495,224
	-Reserves and surplus	(2,889,212)
	-Amount deducted from Tier1 capital (Deferred Tax Asset & other Intangibles)	(6,707,282)
	-Debit balance in HO / Unearned Credit Spreads	(2,187,042)
B	Tier 2 Capital	1,279,121
	of which	
B.1	Other Tier 2 Capital:	
	- Provision for Standard Assets	1,112,779
	- Provision for Country Risk	1,051
C	Total Eligible Capital	41,990,809



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5. CAPITAL ADEQUACY

Capital management

The Group actively manages its capital to meet regulatory norms, current & future business needs considering the risks in its businesses, expectation of rating agencies, shareholders, investors, and assess any available option of raising capital at optimal costs.

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 Group assesses the capital requirement through a comprehensive projection of future business that takes cognizance of the strategic intent of the Group, 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.

The capital plan takes the following into account:

- Regulatory capital requirements.
- Increases in demand for capital due to business growth, market shocks or stresses.
- Available supply of capital and capital raising options.
- Internal controls and governance for managing the Bank's risk, performance and capital.

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

The risk assessment is closely integrated with the Bank's strategy, business planning and capital assessment processes, and is used by the senior management's in their assessment of the level of capital required to support the Group / Bank's business activities.

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

A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 31st March 2010 is presented below.



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	Amount in INR 000s
A	Capital Requirement for Credit Risk (Standardised Approach)
	172,774,137
	I) On-balance sheet exposures excluding securitisation exposures
	76,696,367
	II) Off- balance sheet exposures excluding securitisation exposures
	93,522,507
	a) <i>Non-market related</i>
	13,661,233
	b) <i>Market-related</i>
	79,861,274
	III) On-balance sheet-securitisation exposures
	2,054,575
	IV) Counterparty Risk as Borrower of funds
	500,688
B	Capital Requirement for Market Risk (Standardised Duration Approach)
	58,902,089
	Interest rate related instruments
	54,055,273
	Equity
	846,816
	Foreign Exchange and Gold
	4,000,000
C	Operational-risk-weighted exposures (Basic Indicator Approach)
	15,515,007
D	Capital Adequacy Ratio of the Bank
	16.99%
E	Tier 1 CRAR (%)
	16.47%

6. 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 periodically 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



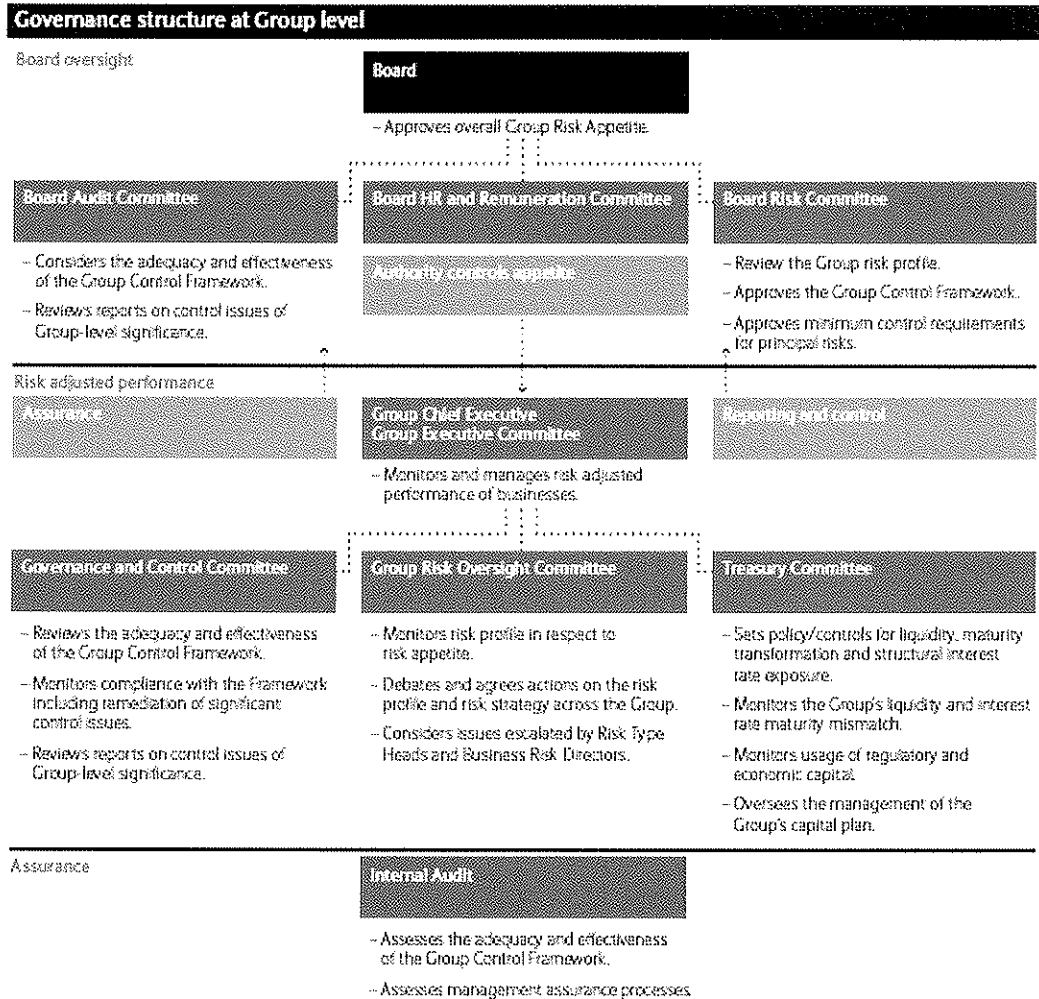
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GOVERNANCE STRUCTURE AT GROUP LEVEL

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 relevant at the time. 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.





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

7. CREDIT RISK

Credit risk is the risk of suffering financial loss should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. The granting of credit is one of the Group's major sources of income and, as the most significant risk; the Group dedicates considerable resources to controlling it. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with our clients. Barclays is also exposed to other credit risks arising from its trading activities, including debt securities, settlement balances with market counterparties, available for sale assets and reverse repurchase loans. Where the Group holds collateral against counterparty exposures, it may not be able to realise it or liquidate it at prices sufficient to cover the full exposures.

In managing credit risk, the Group applies the five-step risk management process. Credit risk management objectives are:

- To establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles.
- To identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio.
- To control and plan credit risk-taking in line with external stakeholder expectations and avoiding undesirable concentrations.
- To monitor credit risk and adherence to agreed controls.
- To ensure that risk-reward objectives are met.

7.1 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 Chief Risk Officer. The role of the Group Risk function is to provide Group-wide direction, oversight and challenge of credit risk-taking.

Group Risk sets the Credit Risk Control Framework, which provides a structure within which credit risk is managed together with supporting Group Credit Risk Policies. Group Credit Risk Policies currently in force include:

- Maximum exposure guidelines to limit the exposures to an individual customer or counterparty.



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- Country risk policies to specify risk appetite by country and avoid excessive concentration of credit risk in individual countries.
- Aggregation policy to set out the circumstances in which counterparties should be grouped together for credit risk purposes.
- Expected loss policies to set out the Group approaches for the calculation of expected loss, i.e. Group measure of anticipated loss for exposures.
- Impairment and provisioning policies to ensure that measurement of impairment accurately reflects incurred losses and that clear governance procedures are in place for the calculation and approval of impairment allowances.

The principal Committees that review credit risk management, approve overall Group credit policy and resolve all significant credit policy issues are the Board Risk Committee, the Group Risk Oversight Committee, the Wholesale Credit Risk Management Committee and the Retail Credit Risk Management Committee. Senior Group and business risk management are represented on the Group Risk Oversight Committee, the Wholesale Credit Risk Management Committee and the Retail Credit Risk Management Committee. On a semi-annual basis, the Credit Risk Impairment Committee (CRIC) obtains assurance on behalf of the Group that all businesses are recognizing impairment in their portfolios accurately, promptly and in accordance with policy, accounting standards and established governance.

7.2 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 Group is exposed, from the level of individual facilities up to the total portfolio. Integral to this is the calculation of internal ratings, which are used in numerous aspects of credit risk management and in the calculation of regulatory and economic capital.

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)

Within Barclays, the calculation of internal ratings differs between wholesale and retail customers. For wholesale portfolios, the rating system is constructed to ensure that a client receives the same rating regardless of the part of the business with which it is dealing. To achieve this, a model hierarchy is adopted which requires users to adopt a specific approach to rating each counterparty depending upon the nature of the business and its location. A range of methods are utilised for estimating wholesale counterparty PDs. These include bespoke grading models developed within the Group (internal models), vendor models such as MKMV Credit Edge and RiskCalc, and a conversion of external alphabet ratings from either S&P, Moody's or Fitch. Retail models, especially those used for capital purposes, are almost exclusively built internally using Barclays data. In many cases bureau data is used to complement internal data and in rare cases models developed by the credit bureau themselves are used in conjunction with internal models.



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A key element of the Barclays wholesale framework is the PD Masterscale (see below). This scale has been developed to distinguish meaningful differences in the probability of default risk throughout the risk range

Exposure at default (EAD) represents the expected level of usage of the credit facility should default occur. At the point of default, the customer exposure can vary from the current position due to the combined effects of additional drawings, repayment of principal and interest and fees. EAD parameters are all derived from internal estimates and are determined from internal historical behaviour. The lower bound of EAD for regulatory capital purposes is the current balance at calculation of EAD.

Should a customer default, some part of the exposure is usually recovered. The part that is not recovered, the actual loss, together with the economic costs associated with the recovery process, comprise the loss given default (LGD), which is expressed as a percentage of EAD. The Group estimates an average LGD for each type of exposure using historical information. The level of LGD depends principally on: the type of collateral (if any); the seniority or subordination of the exposure; the industry in which the customer operates (if a business); the length of time taken for the recovery process and the timing of all associated cash flows; and the jurisdiction applicable and work-out expenses. The outcome is also dependent on economic conditions that may determine, for example, the prices that can be realised for assets, whether a business can readily be refinanced or the availability of a repayment source for personal customers

7.3 Credit risk concentration risk

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 as prescribed by Reserve Bank of India vide its Master circular on Exposure norms DBOD.No.Dir.BC.11/13.03.00/ 2009-10 on a periodic basis. 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, bank may, in exceptional circumstances, with the approval of its Local Governance Committee (LGC), 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



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- Percentage of unsecured loans to total loan and advances.
- Defining Industry / Sectoral caps as a percentage of total portfolio
- Caps/ Limits for certain sectors which are identified as higher risk.

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.

7.4 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:

- Interest and /or installment of principal remains overdue for a period of more than 90 days in respect of a term loan
- The account remains “out-of order” in respect of an Overdraft or Cash Credit (OD/CC)
- The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted.
- Any amount to be received remains ‘overdue’ for a period of more than 90 days in respect of other accounts.
- A loan granted for short duration crops is treated as NPA, if the installment of principal or interest thereon remains overdue for two crop seasons and a loan granted for long duration crops is treated as NPA, if installment of principal or interest thereon remains overdue for one crop season.
- 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.
- Any other loan or advances identified as non performing by management through periodic internal assessment.



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'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.

The overdue receivables representing positive mark-to-market value of a derivative contract will be treated as a non-performing asset, if these remain unpaid for 90 days or more. In that case all other funded facilities granted to the client shall also be classified as non-performing asset following the principle of borrower-wise classification as per the existing asset classification norms.

Any amount, representing positive mark-to-market value of the foreign exchange derivative contracts (other than forward contract and plain vanilla swaps and options) that were entered into during the period April 2009 to June 2010, which has already crystallised or might crystallise in future and is / becomes receivable from the client, should be parked in a separate account maintained in the name of the client / counterparty. This amount, even if overdue for a period of 90 days or more, will not make other funded facilities provided to the client, NPA on account of the principle of borrower-wise asset classification, though such receivable overdue for 90 days or more shall itself be classified as NPA, as per the extant IRAC norms

7.5 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.

Specific provisions are made based on management's assessment of the degree of impairment of the advances, subject to minimum provisioning norms laid down by the RBI.

Impairment provisions on Derivatives are made to reflect the risk tendency of the portfolio. Also provisions (as applicable to the loan assets) in the 'Standard' category are made on the



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net marked to market credit exposures computed as per the current marked to market value of the contract, arising on account of the interest rate & foreign exchange derivative transactions at a counterparty level as prescribed by RBI. Specific provisions are made based on management's assessment of the degree of impairment with respect to derivative transactions subject to minimum provisioning norms laid down by RBI. As the overdue receivables mentioned in 1g(v) above represent unrealised income already booked by the Bank on fair value basis, after 90 days of overdue period, the amount already taken to 'Profit and Loss a/c' has been .

7.6 Credit Risk exposures

a) Total Gross Credit Risk Exposure Including Geographic Distribution of Exposure				
				(Rs. In '000s)
		Domestic	Overseas	Total
A)	Fund Based #	75,651,970	-	75,651,970
B)	Non Fund Based *	26,980,379	-	26,980,379
	Total	102,632,349	-	102,632,349

The above comprises of loans and advances as appearing in Schedule 9 of balance sheet
 * Non-fund based exposures are guarantees given on behalf of constituents, letters of credit and acceptances and endorsements and does not include exposures arising on the derivative contracts.

b) Industry Classification of Loans and Advances			Amount in INR 000s
S.No.	Industry Classification	Fund Based	Non Fund Based (Non Derivatives)
1	Coal		
2	Mining	95,000	
3	Iron and Steel	3,070,788	1,829,794
4	Other Metal and Metal products	706,358	295,419
5	All Engineering	2,780,599	944,516
6	Electricity	314,800	599,350
7	Cotton Textiles	361,176	31,374
8	Jute Textiles		
9	Other Textiles	932,208	71,226
10	Sugar		
11	Tea		
12	Food Processing	1,172,810	1,063,503
13	Vegetable Oil and Vanaspati	844,235	-
14	Tobacco and Tobacco Products		
15	Paper and Paper Products	792,505	123,574
16	Rubber and Rubber Products	421,186	115,398
17	Chemicals, Dyes, Paints etc.	2,702,914	2,354,746
18	Cement	250,000	



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b) Industry Classification of Loans and Advances			Amount in INR 000s
S.No.	Industry Classification	Fund Based	Non Fund Based (Non Derivatives)
19	Leather and Leather Products	150,000	
20	Gems and Jewellery	783,056	38,750
21	Construction	3,005,861	589,555
22	Petroleum	898,000	2,403,890
23	Automobiles including trucks	2,006,323	731,836
24	Computer Software	1,396,790	187,377
25	Infrastructure	1,094,885	1,643,657
26	NBFCs & Trading	1,770,000	
27	Other Industries	11,290,198	4,775,344
28	Banking Sector	1,627,507	8,035,003
29	Retail Loans	34,246,809	-
30	Residual exposures	2,937,962	1,146,066
	Total	75,651,970	26,980,378

c) Residual Contractual Maturity Breakdown of Assets		
S.No.	Maturity bucket	Amount in INR 000s
1	1 day	85,819,820
2	2 to 7 days	21,572,949
3	8 to 14 days	11,191,825
4	15 to 28 days	4,032,268
5	29 days to 3 months	13,558,056
6	3 to 6 months	13,618,374
7	6 to 12 months	9,204,613
8	1 to 3 years	18,820,300
9	3 to 5 years	8,529,466
10	Over 5 years	26,624,010
	Total	212,971,681

d) Movement of NPAs and Provision for NPA (Loans and Advances Portfolio)		
		(Rs. In '000s)
		Amount
A	Amount of NPAs (Gross)	14,687,101
	- Substandard	9,871,904
	-Doubtful 1	1,872,437
	-Doubtful 2	20,778
	-Doubtful 3	
	- Loss	2,921,982



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		(Rs. In '000s)
		Amount
B	Net NPAs	3,893,223
C	NPA Ratios	
	-Net NPAs to Net advances	5.15%
D	Movement of NPAs (Net)	
	-Opening balance as on 1 April 2009	4,846,162
	-Additions	1,758,998
	-Reductions	2,711,937
	-Closing balance as at 31 March 2010	3,893,223
E	Movement of Provision for NPAs	
	-Opening balance as on 1 April 2009	5,632,349
	-Provision made in FY 2009-10	13,497,378
	- Write –offs	8,335,849
	-Closing balance as at 31 March 2010	10,793,878

e) NPIs and movement of Provision for Depreciation on NPIs		Amount in INR 000s
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 April 2009	150,198
	-Provision made in FY 2009-10	
	- Write –offs	
	- Write back of excess provisions	
	-Closing balance as at 31 March 2010	150,198

8. CREDIT RISK: Disclosure of Portfolio subject to 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 are used for assigning the risk weights.



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- 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.
- Where the customer has availed a short term loan / working capital facilities or entered into a derivative trade with residual 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. However if the long term rating of the counterparty is BB or below, then all the claims including the short term claims would be risk weight of 150%.
- Cash Credit / Overdraft exposures shall be considered as long term exposures and treatment applicable to long term exposures shall be applied.
- 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*	
	Amount (Rs. In '000s)
Amount of bank's outstanding (rated and unrated) in the following :	
-Below 100% risk weight	15,986,349
- 100% risk weight	38,165,734
-More than 100% risk weight	21,499,887
-Deductions	
* The above comprises of loans and advances given non bank counterparties only.	

9. CREDIT RISK MITIGATION

The Bank's credit risk mitigation techniques, apart from traditional practices of taking security of cash / other physical collaterals, include taking guarantees of high credit quality parties, avoidance of credit concentration in a single industry / counterparty, perfection of legal documentation and master netting agreements.

The RBI guidelines on Basel II allow the following credit risk mitigants to be recognised for regulatory capital purposes under the comprehensive approach :

- **Eligible financial collateral** which include cash (deposited with the Bank), gold, securities issued by Central and State Governments, Kisan Vikas Patra, National Savings Certificates, life insurance policies with a declared surrender value issued by an insurance company which is regulated by the insurance sector regulator, certain debt securities rated by a recognised credit rating agency, mutual fund units where daily net asset value is available in public domain and the mutual fund is limited to investing in the instruments listed above.



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- **On-balance sheet netting**, which is confined to loans/advances and deposits, where banks have legally enforceable netting arrangements, involving specific lien with proof of documentation.
- **Guarantees**, where these are direct, explicit, irrevocable and unconditional. Further, the eligible guarantors would comprise:
 - Sovereigns, sovereign entities stipulated in the RBI guidelines on Basel II, bank and primary dealers with a lower risk weight than the counterparty;
 - Other entities, which are rated AA(-) or better.

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, haircuts / margins on collateral market values, re-margining requirements and reassessment of credit limits. The frequency of collateral valuation is driven by the volatility in each class of collateral. The valuation of collateral is monitored and back tested regularly.

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 Bank has set triggers which are tracked on a monthly basis to assess if the performance of the portfolio is satisfactory

Exposure covered by eligible financial collateral after applicable haircut is Rs. (000's) 18,607.

10. SECURITISATION

Securitisation transactions are undertaken generally with the objective of credit risk transfer, liquidity management, meeting regulatory requirements, such as, capital adequacy and asset portfolio management. The Bank generally participates in both traditional securitisation, as well as, synthetic securitizations. The primary objective of securitization activities is to increase the efficiency of capital and enhance the returns on capital employed by diversifying the source and application of funding.

In securitisation transactions backed by assets either originated by the Bank or third parties, the Bank may play the following major roles:

- **Underwriter**: allowing un-subscribed portions of securitised debt issuances, if any to devolve on the Bank, with the intent of selling at a later stage.
- **Investor/trader/market-maker**: acquiring investment grade securitised debt instruments backed by financial assets originated by third parties for purposes of investment / trading / market-making with the aim of developing an active secondary market in securitised debt.
- **Structurer**: structuring appropriately in a form and manner suitably tailored to meet investor requirements while being compliant with extant regulations.



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- **Provider of liquidity facilities:** addressing temporary mismatches on account of the timing differences between the receipt of cash flows from the underlying performing assets and the fulfillment of obligations to the beneficiaries.
- **Provider of credit enhancement facilities:** addressing delinquencies associated with the underlying assets, i.e. bridging the gaps arising out of credit considerations between cash flows received/collected from the underlying assets and the fulfillment of repayment obligations to the beneficiaries.
- **Provider of collection and processing services:** collecting and/or managing receivables from underlying obligors, contribution from the investors to securitisation transactions, making payments to counterparties/ appropriate beneficiaries, reporting the collection efficiency and other performance parameters and providing other services relating to collections and payments as may be required for the purpose of the transactions.

10.1 Risks in securitisation

The major risks inherent in the securitised transactions are:

- **Credit risk:** Risk arising on account of payment delinquencies from underlying obligors/borrowers in the assigned pool.
- **Market risk:**
 - i. **Liquidity risk:** Risk arising on account of lack of secondary market to provide ready exit options to the investors / participants.
 - ii. **Interest rate/currency risk:** Mark to market risks arising on account of interest rate/currency fluctuations.
- **Operational risk:**
 - i. **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 exist a time lag between collecting amounts due from the obligors and payment made to the investors.
 - ii. **Performance risk:** Risk arising on account of the inability of a collection and processing agent to collect monies from the underlying obligors as well as operational difficulties in processing the payments.
 - iii. **Regulatory and legal risk:** Risk arising on account of
 - non-compliance of the transaction structures with the extant applicable laws which may result in the transaction(s) being rendered invalid.
 - conflict between the provisions of the transaction documents with those of the underlying financial.
 - non enforceability of security/claims due to imperfection in execution of the underlying facility agreements with the borrower(s).
- **Reputation risk:** Risk arising on account of
 - i. Rating downgrade of a securitised instrument due to unsatisfactory performance of the underlying asset pool; and
 - ii. Inappropriate/imprudent practices followed by the collection & processing agent.



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In addition to the above, securitised assets are exposed to prepayment risk. Prepayment risk arises on account of prepayment of dues by obligors/borrowers in the assigned pool either in part or full.

10.2 Summary of the bank's accounting policies for securitisation activities

In accordance with the RBI guidelines for securitisation of standard assets, with effect from February 1, 2006, the Bank accounts for any loss arising from securitisation immediately at the time of sale and the profit / premium arising from securitisation is amortised over the life of the securities issued or to be issued by the special purpose vehicle to which the assets are sold.

The valuation of the retained interests or purchased portfolio in the form of pass-through certificates (PTCs) is derived by applying the Yield-to-Maturity ("YTM") method and by adding the appropriate mark-up (reflecting associated credit risk) over the YTM rates for government securities published by FIMMDA.

10.3 Rating of securitisation exposures

Bank has used the ratings obtained by the external credit rating agencies in order to compute the Risk weight assets on the securitisation exposures.

10.4 Details of securitisation exposures in the banking and trading book

10.4 Trading Book

10.4.1 Securitisation exposure retained / purchased *

		Amount in INR 000s
Nature	Exposure Type	Exposure
On Balance Sheet	Vehicle/ Auto Loan	8,632,665
Off Balance Sheet	-	-
TOTAL		8,632,665

* Securitisation exposures represent PTC's purchased in case of third party originated securitisation transactions.

10.4.2 Risk weight bands break-up of securitisation exposures retained or purchased and the related capital charge

Risk Bands	Exposure	Risk weighted assets	Capital Requirement
< 100% risk weight	7,812,559	3,289,045	296,014
=100% risk weight	820,106	820,106	73,810
> 100% risk weight	-	-	-
TOTAL	8,632,665	4,109,151	369,824



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11. MARKET RISK

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.

Capital requirement for Market Risk	
Capital Required	Amount in INR 000's
- Interest Rate Risk	4,864,975
- Equity Position Risk	76,213
- Foreign Exchange Risk	360,000

12. 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



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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 assess the impact on liquidity. Bank also prepares structural liquidity statements, dynamic liquidity statement and other liquidity reports to manage the liquidity position.

13. 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. Operational risks are inherent in the Group's operations and are typical of any large enterprise. 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

Group is committed to the advanced measurement and 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. However the Bank uses Basic Indicator Approach under Pillar 1 for computation of local regulatory capital requirement for operational risk and intends to apply to the RBI to migrate to advanced approaches whenever permitted.

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.
- Manage residual exposures using insurance

Organisation and structure

Barclays works to benchmark our internal operation risk practices with peer banks and to drive the development of advanced operational risk techniques across the industry. It is not cost effective to attempt to eliminate all operational risks and in any event it would not be possible to do so. Events of small significance are expected to occur and are accepted as part of the normal course of business; events of material significance are rare and the Group seeks to reduce the risk from these in accordance with its agreed Risk Appetite.

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 by 'Principal Risk' owners. The risk categories relevant to operational risks are Financial Crime, Financial Reporting, Taxation, Legal, Operations, People, Regulatory and Technology. In addition, the following risk categories are used for business risk: Brand Management, Corporate Responsibility, Strategic and Major



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Change. Responsibility for implementing and overseeing these policies is positioned with Group Principal Risk Owners.

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. Front line 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 receives reports from the committees in the businesses and considers Group-significant control issues and their remediation.

In the Group 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.

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 captured in a central database and reported monthly to the Group Operational Risk Executive Committee.

Approach for Operational Risk Capital Assessment

As per the RBI guidelines, Bank has followed the Basic Indicator Approach prescribed under Pillar 1 of Basel II framework for the year ending 31st March 2010.

14. 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 on account of banking products (non trading nature) offered to retail and corporate customers

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.

Interest rate risk exposure of the banking book is primarily measured with Interest Rate Gap analysis and Value at Risk, 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;



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Rs in '000s

Currency	Interest rate shocks	
	2% increase	2% decrease
Rupees and other currency	170,147	(170,147)
US Dollar	72,630	(72,630)

ii. Economic value perspective :-

Rs in '000s

Currency	Value at risk*
Rupees and other currency *	97,911
US Dollar**	7,194

*95% confidence level, one day horizon, variance - covariance method