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

Basel II disclosures of Barclays Bank Plc - Indian Branches for the year ended 31 March 2012

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. Barclays Bank Plc. (UK) (the **"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 9 branches. The Bank 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. SCOPE OF BASEL II FRAMEWORK

2.1. 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. In compliance with the local regulations, the Bank has adopted standardised approaches for local regulatory Pillar 1 purposes.

RBI has stipulated that the minimum risk weighted assets (excluding operational risk) under Pillar 1 must not be less than 80% of the Basel I RWAs as at March 2013 and any extended period as may be prescribed by RBI.

2.2. 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 Internal Capital Adequacy Assessment Process (ICAAP). The range of risks that need to be covered by the ICAAP is much broader than Pillar 1 which covers only credit risk, market risk and operational risk.

The Group has developed an ICAAP framework which closely integrates the risk and capital assessment processes and ensures that adequate levels of capital are maintained to support the Group's current and projected demand for capital under expected and stressed

conditions. The Bank has developed its ICAAP in line with the RBI's guidelines and aligned the same to the Group's ICAAP framework.

2.3. 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 operations.

Basel III

In order to strengthen the resilience of the banking sector to potential future shocks, together with ensuring adequate liquidity in the banking system, the Basel Committee on Banking Supervision (BCBS) issued the Basel III proposals on December 17, 2009. Following a consultation phase on these proposals, the final set of Basel III rules were issued on December 16, 2010.

The Basel III capital regulations emphasise on improving the quality, consistency and transparency of capital, enhancing risk coverage, introducing a supplementary leverage ratio, reducing procyclicality and promoting countercyclical buffers, and addressing systemic risk and interconnectedness.

After issuing the draft guidelines and taking feedback from the industry, RBI issued the final guidelines on the Basel III capital regulations on May 2, 2012. We are in the process of complying with the Basel III framework as required by the regulation.

3. CAPITAL STRUCTURE

Capital Structure / Instruments of the Bank

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.

Tier 2 capital mainly comprises of:

i. General provisions and Loss Reserves 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 in 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 RWAs.

As on March 31, 2012 capital base (Tier 1+Tier 2) of the Bank stood at Rs. 44,716,479 ('000s)

		Rs in 000's
A	Tier 1 Capital	**42,250,692**
	of which	
	-Paid-up Share Capital	52,495,224
	-Reserves and surplus	-3,464,414
	Less: Deductions from Tier 1 Capital	
	-Amount deducted from Tier1 capital (Deferred Tax Asset & other Intangibles)	-5,966,724
	-Debit balance in HO / Unearned Credit Spreads	-813,393
B	Tier 2 Capital	
	of which	**1,579,761**
B.1	Other Tier 2 Capital:	
	- Provision for Standard Assets	
	- Provision for Country Risk	1,278,070
	- Excess Provision on sale of NPA's	1,051
		300,640
C	Total Eligible Capital	**43,830,453**

4. CAPITAL ADEQUACY

Capital management

Capital risk is the risk that the Group is unable to maintain appropriate capital ratios which could lead to:

- An inability to support business activity;
- A failure to meet regulatory requirements; or
- rating agency concerns.

Capital Management is integral to the Group's approach to financial stability and sustainability management and is therefore embedded in the way our businesses and legal entities operate. Our Capital Management strategy is driven by the strategic aims of the Group and the risk appetite set by the Board.

Group operates a centralised capital management model, considering both regulatory and economic capital. Capital allocations are approved by the Group Executive committee and monitored by the Treasury Committee, taking into consideration the risk appetite, growth and strategic aims of the Group. Regulated legal entities are, at a minimum, allocated adequate capital to meet their current and forecast regulatory requirement.

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

The Bank has a process for assessing its overall capital adequacy in relation to the Bank's risk profile and a strategy for maintaining its capital levels. The process provides an assurance that the Bank has adequate capital to support all risks in its business and an appropriate capital buffer based on its business profile. The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through sound governance and control practices, robust risk management framework and an elaborate process for capital calculation and planning.

The Bank's capital management framework includes a comprehensive internal capital adequacy assessment process (ICAAP) conducted annually and which determines the adequate level of capitalisation for the Bank to meet regulatory norms, current and future business needs, including those under stress scenarios. The ICAAP encompasses capital planning for a three year time horizon, identification and measurement of material risks and the relationship between risk and capital.

Stress testing which is a key aspect of the ICAAP and the risk management framework provides an insight on the impact of extreme but plausible "stressed" business conditions on the Bank's risk profile and capital position. Based on the ALCO-approved stress testing framework, the Bank conducts stress tests on its various portfolios and assesses the impact on its capital ratios and the adequacy of capital buffers for current and future periods.

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 2012 is presented below.

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		Rs in 000's
A	**Capital Requirement for Credit Risk (Standardised Approach)**	**206,665,384**
	I) On-balance sheet exposures excluding securitisation exposures	75,622,912
	II) Off- balance sheet exposures excluding securitisation exposures	125,107,038
	a) Non-market related	*9,307,904*
	b) Market-related	*115,799,134*
	III) On-balance sheet-securitisation exposures	*524,873*
	IV) Counterparty Risk as Borrower of funds	*5,410,561*
B	**Capital Requirement for Market Risk (Standardised Duration Approach)**	**68,159,504**
	Interest rate related instruments	66,736,096
	Equity	423,408
	Foreign Exchange and Gold	1,000,000
C	**Operational-risk-weighted exposures (Basic Indicator Approach)**	**17,645,614**
D	**Capital Adequacy Ratio of the Bank**	**14.99%**
E	**Tier 1 CRAR (%)**	**14.45%**

5. RISK MANAGEMENT: OBJECTIVES AND ORGANISATION STRUCTURE

At a strategic level, our risk management objectives are to:

• Identify the Group's significant risks;
• Formulate the Group's risk appetite and ensure that business profile and plans are consistent with it;
• Optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures;
• Ensure that business growth plans are properly supported by effective risk infrastructure;
• Manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions; and
• Help executives improve the control and co-ordination of risk taking across the business.

RISK APPETITE

Risk appetite is defined as the level of risk that Barclays is prepared to sustain whilst pursuing its business strategy, recognising a range of possible outcomes as business plans are implemented. Barclays framework combines a top-down view of its capacity to take risk with a bottom-up view of the business risk profile associated with each business area's medium term plans. The appetite is ultimately approved by the Board.

Taken as a whole, the risk appetite framework provides a basis for the allocation of risk capacity across Barclays Group and consists of two elements: 'Financial Volatility' and 'Mandate & Scale'.

Financial Volatility

Financial Volatility is defined as the level of potential deviation from expected financial performance that Barclays is prepared to sustain at relevant points on the risk profile. The Board sets the Group's financial volatility risk appetite in terms of broad, top down, financial objectives for a through the cycle, a moderate stress and a severe stress events;

Mandate & Scale

The second element to the setting of risk appetite in Barclays is an extensive system of Mandate & Scale limits, which is a risk management approach that seeks to formally review and control business activities to ensure that they are within Barclays mandate and are of an appropriate scale (relative to the risk and reward of the underlying activities).

Barclays uses the Mandate & Scale framework to:

- limit concentration risk;
- keep business activities within Group and individual business mandate;
- ensure activities remain of an appropriate scale relative to the underlying risk and reward; and
- ensure risk-taking is supported by appropriate expertise and capabilities.

As well as Group-level Mandate & Scale limits, further limits are set by risk managers within each business unit, covering particular portfolios.

GOVERNANCE STRUCTURE AT GROUP LEVEL

Responsibility for risk management resides at all levels within the Group, from the Board and the Executive Committee down through the organisation to each business manager and risk specialist. Barclays distributes these responsibilities so that risk/return decisions are taken at the most appropriate level; as close as possible to the business, and subject to robust and effective review and challenge. The responsibilities for effective review and challenges reside with senior managers, risk oversight committees, Barclays Internal Audit, the independent Group Risk function, the Board Risk Committee and, ultimately, the Board.

In addition, each business unit has an embedded risk management function, headed by a business risk director. Business risk directors and their teams are responsible for assisting business heads in the identification and management of their business risk profiles and for implementing appropriate controls. These teams also assist Group Risk in the formulation of Group policies and their implementation across the businesses.

The governance structure, at the Group level in the below chart level gives an oversight on the various risk committees that approve the risk appetite.

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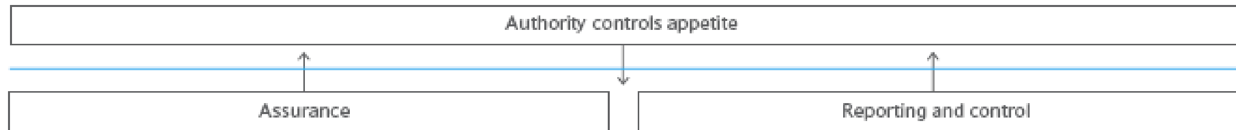
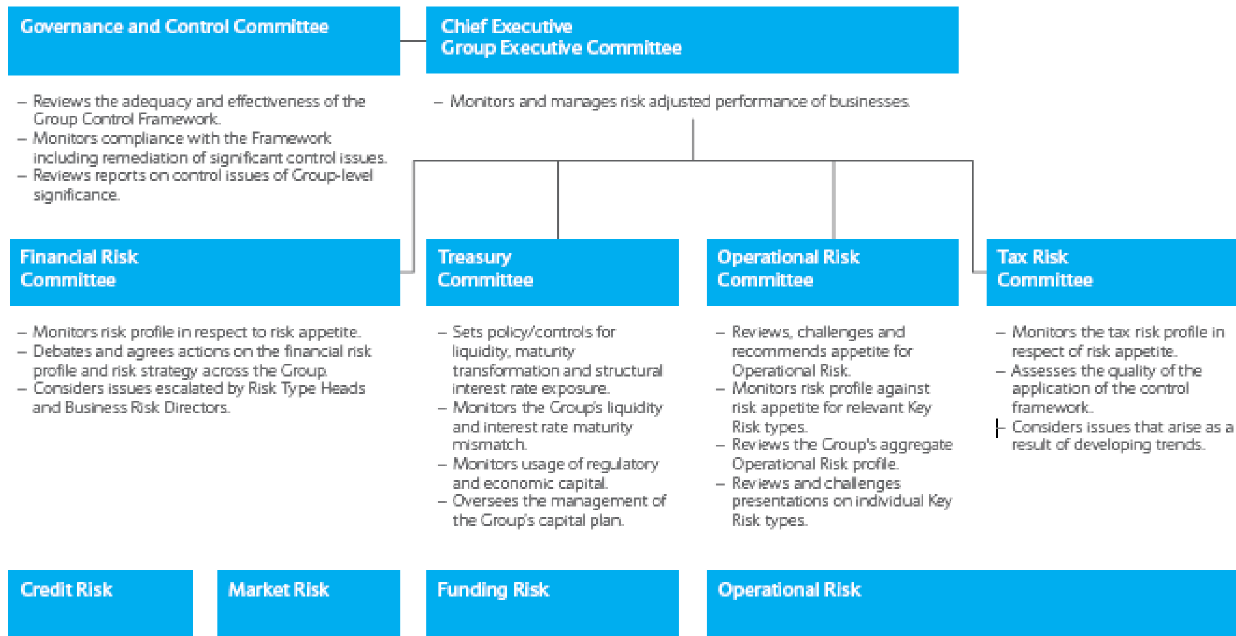
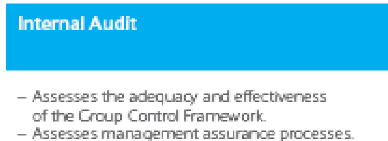




Assurance



– Assesses the adequacy and effectiveness of the Group Control Framework.
– Assesses management assurance processes.

The Principal Risks Framework:
– creates clear ownership and accountability;
– ensures the Group's most significant risk exposures are understood and managed in accordance with agreed risk appetite (for financial risks)and risk tolerances (for non-financial risks); and
– ensures regular reporting of both risk exposures and the operating effectiveness of controls.

Barclays recognises four principal risks:-

- Credit Risk
- Market Risk
- Funding Risk
- Operational Risk

The five steps required by the Principal Risks Policy are:

- Identify & Assess
- Control
- Report
- Manage
- Challenge

At the Bank level, Global Financial Risk Management (GFRM) operating within the broad policy framework reviews and monitors various aspects of risk arising from the business. Independent Committee(s) have been constituted across the Bank to facilitate independent evaluation, monitoring and reporting of various risks.

6. 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. The Group 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.

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.

6.1 Organisation and structure

The Group 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.
- 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 Financial Risk Committee, the Wholesale Credit Risk Management Committee and the Retail Credit Risk Management Committee.

6.2 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)
- Loss given default (LGD)

The three components described – the PD, EAD and LGD – are building blocks used in a variety of applications that measure credit risk across the entire portfolio. These parameters can be calculated to represent different aspects of the credit cycle:

• PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12 month period across credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months

• LGD and EAD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual (BAU) measures, reflecting behaviour under actual conditions

These parameters, in suitable combination, are used in a wide range of credit risk measurement and management. We use internal ratings for the following purposes:

• Credit approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision making tools. In wholesale and some retail mortgage portfolios, PD models are used to direct applications to an appropriate credit sanctioning level

• Credit grading: originally introduced in the early 1990s to provide a common measure of risk across the Group. Wholesale credit grading now employs a 21 point scale of default probabilities.

• Risk-reward and Pricing: PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions

• Risk appetite: measures of expected loss and the potential volatility of loss are used in the Group's Risk Appetite framework

• Impairment calculation: under IAS 39, many of our collective impairment estimates incorporate the use of our PD and LGD models, adjusted as necessary

• Collections and recoveries: model outputs are used to identify segments of the portfolio where collection and recovery efforts should be prioritized

• Economic capital (EC) calculation: most EC calculations use the same PD and EAD inputs as the regulatory capital (RC) process. The process also uses the same underlying LGD model outputs as the RC calculation, but does not incorporate the same economic downturn adjustment used in RC calculations

• Risk management information: Group Risk and the business units generate risk reports to inform senior management on issues such as the business performance, Risk Appetite and consumption of EC. Model outputs are used as key indicators in those reports

Exposure at default (EAD) represents the expected level of usage of the credit facility should default occurs. 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

6.3 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.14/13.03.00/ 2010-11 on a periodic basis. The exposure ceiling limits is 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 India Management Committee, 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
- 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.

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.

6.4 Definition 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 instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- the account remains 'out of order' as indicated below, in respect of an Overdraft/Cash Credit (OD/CC),
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- the amount of liquidity facility remains outstanding for more than 90 days in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.
- in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

- Any other loan or advances identified as non performing by management through periodic internal assessment.

‘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.

6.5 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 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 represent unrealised income already booked by the Bank on a fair value basis, after 90 days of overdue period, the amount already taken to 'Profit and Loss a/c' is reversed .

6.6 Restructured Assets

As per RBI guidelines, a fully secured standard loan can be restructured by rescheduling principal repayments and/or the interest element, but must be separately disclosed as a restructured loan in the year of restructuring. Similar guidelines apply to restructuring of substandard and doubtful loans.

A sub-standard asset, which has been restructured, will be upgraded to the standard category only after a satisfactory performance of the borrower over a period of time.

6.7 Credit Risk exposures

a) Total Gross Credit Risk Exposure Including Geographic Distribution of Exposure				
				Rs in 000's
		Domestic	Overseas	Total
A)	Fund Based #	86,570,387		86,570,387
B)	Non Fund Based *	15,557,223		15,557,223
	Total	**102,127,610**		**102,127,610**
# 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			Rs in 000's
S.No.	**Industry Classification**	**Fund Based**	**Non Fund Based (Non Derivatives)**
1	Coal	-	-
2	Mining	20,239	254,375
3	Iron and Steel	392,384	2,543,750
4	Other Metal and Metal products	673,049	182,715
5	All Engineering	2,417,626	2,198,247
6	Electricity	823,817	426,472
7	Cotton Textiles	105	-
8	Jute Textiles	-	-
9	Other Textiles	-	-
10	Sugar	-	-
11	Tea	-	101,750
12	Food Processing	1,201,688	367
13	Vegetable Oil and Vanaspati	335,562	1,159,813
14	Tobacco and Tobacco Products	-	-
15	Paper and Paper Products	120,936	28,932

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b) Industry Classification of Loans and Advances			Rs in 000's
S.No.	Industry Classification	Fund Based	Non Fund Based (Non Derivatives)
16	Rubber and Rubber Products	469,650	47,898
17	Chemicals, Dyes, Paints etc.	725,942	305,101
18	Cement	-	-
19	Leather and Leather Products	-	-
20	Gems and Jewellery	265,058	-
21	Construction	3,469,162	917,178
22	Petroleum	2,035,000	-
23	Automobiles including trucks	-	-
24	Computer Software	785,192	-
25	Infrastructure	27,308,987	92,453
26	NBFCs & Trading	2,990,556	-
27	Other Industries	10,610,022	2,662,192
28	Banking Sector	-	-
29	Retail Loans	16,166,049	-
30	Residual exposures	15,759,362	4,635,979
	Total	**86,570,387**	**15,557,223**

c) Residual Contractual Maturity Breakdown of Advances		
S.No.	**Maturity bucket**	**Rs in 000's**
1	1 day	5,008,068
2	2 to 7 days	8,753,041
3	8 to 14 days	4,739,799
4	15 to 28 days	3,910,576
5	29 days to 3 months	7,746,609
6	3 to 6 months	7,215,308
7	6 to 12 months	18,163,742
8	1 to3 years	20,813,178
9	3 to 5 years	3,553,480
10	Over 5 years	6,666,587
	Total	**86,570,387**

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d) Movement of NPAs and Provision for NPA (Loans and Advances Portfolio)		
		Rs in 000's
A	Amount of NPAs (Gross)	**5,471,477**
	- Substandard	2,145,432
	- Doubtful	2,675,248
	- Loss	650,798
B	**Net NPAs**	1,253,973
C	**NPA Ratios**	
	-Net NPAs to Net advances	1.45%
D	**Movement of NPAs (Gross)**	
	-Opening balance as on 1 April 2011	7,811,818
	-Additions	3,092,783
	-Reductions	5,433,123
	-Closing balance as at 31 March 2012	**5,471,477**
E	**Movement of NPAs (Net)**	
	-Opening balance as on 1 April 2011	1,216,175
	-Additions	990,641
	-Reductions	952,843
	-Closing balance as at 31 March 2012	**1,253,973**
F	**Movement of Provision for NPAs**	
	-Opening balance as on 1 April 2011	6,595,643
	-Provision made in FY 2011-12	2,377,496
	- Write –offs	4,755,635
	-Closing balance as at 31 March 2012	**4,217,504**

e) NPIs and movement of Provision for Depreciation on NPIs		
		Rs in 000's
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 2011	386,699
	- Provision made in FY 2011-12	
	- Write –offs	
	- Write back of excess provisions	
	-Closing balance as at 31 March 2012	**386,699**

7. 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.

- Where the customer has availed 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 working capital facilities or entered into a derivative trade with original 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. Cash Credit / Overdraft/ Short Term Loan exposures shall be considered as long term exposures and treatment applicable to long term exposures shall be applied. Since short term loans typically get rolled over on a conservative basis the same would be assigned long term ratings even though their original maturity is less than one year.
- Long term ratings shall be applied to long term funded exposures only. For counterparties risk weighted 150%, exposures of that counterparty as applicable will be risk weighted at 150%.

Details of Credit Risk Exposure based on Risk- Weight*	
	Rs in 000's
Amount of bank's outstanding (rated and unrated) in the following :	77,531,147
-Below 100% risk weight	20,522,070
- 100% risk weight	45,045,203
-More than 100% risk weight	11,963,875
* The above comprises of loans and advances given to non bank counterparties only.	

8. 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.

- **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.

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

9. 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 primary objective of securitisation 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.
- **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.

9.1 Risks in securitization

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.

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. There are no warehousing risks with regards to securitisation exposures.

9.2 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.

On May 07, 2012, RBI has issued Revised Guidelines on Securitsation Transactions.

The principal reasons for the introduction of the New Guidelines are: to discourage the ‘originate to distribute’ model, to realign the interests of originators and the purchasers/investors, to ensure that project implementation risks are not passed on to investors and to ensure that the asset is only assigned or securitised after a minimum recovery performance of the asset has been demonstrated. Towards achieving this, RBI has introduced the concepts of (i) a minimum holding period and (ii) a minimum retention requirement. In addition, it requires purchasing banks to undertake a due diligence of the assets to be acquired and monitor credit exposures. Further, certain assets have been made ineligible for transfer and certain transactions have been exempted.

9.3 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. 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.

9.4 Details of securitisation exposures in the banking and trading book

Trading Book

9.4.1 Securitisation exposure retained / purchased *

		Rs in 000’s
Nature	**Exposure Type**	**Exposure**
On Balance Sheet	Vehicle/ Auto Loan	2,624,366
TOTAL		**2,624,366**

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

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

Rs in 000's

Risk Bands	Exposure	Risk weighted assets	Capital Requirement
< 100% risk weight	2,624,366	524,873	47,239
=100% risk weight	-	-	-
> 100% risk weight	-	-	-
TOTAL	**2,624,366**	**524,873**	**47,239**

There is no sponsorship of off-balance sheet vehicles by the Bank.

10. MARKET RISK

10.1 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.
- Ensure adequate monitoring of the traded market risk in the business and minimisation of non traded market risk

10.2 Risk Measurement

- Barclays uses a range of complementary technical approaches to measure and control traded market risk including: Daily Value at Risk (DVaR), Expected Shortfall, 3W, stress testing of both primary and secondary risk factors and scenario analysis

- DVaR is an estimate of the potential loss arising from unfavourable market movements, if the current positions were to be held unchanged for one business day. Barclays Capital uses the historical simulation methodology with a two-year equally weighted historical period, at the 95% confidence level for all trading portfolios and certain banking books. DVaR is an important market risk measurement and control tool and consequently the model is regularly assessed and reviewed. 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

- Both Expected Shortfall and 3W metrics use the same two year historical simulation data set as used to calculate DVaR. Expected Shortfall is the average of all one day hypothetical losses

beyond the 95% confidence level DVaR while 3W is the average of the three largest one day estimated losses.

- Stress testing provides an estimate of potential significant future losses that might arise from extreme market moves or scenarios. Primary stress tests apply stress moves to key liquid risk factors for each of the major trading asset classes including interest rate, credit, commodity, equity foreign exchange and securitised products. Secondary stress tests apply stress moves to less liquid risks such as option volatility skew.

The Bank's components of Market Risk:

Market risk on interest rate products: Bank calculates its Interest rate risk on its trading portfolio using the Duration method as prescribed by the RBI. The Bank also calculates VaR using the above FSA approved VaR model used by the Group. Head of Treasury monitors the DV01 positions for the IRR and ensure that this is within the regulatory limit of 0.25% of Net Worth.

Foreign Exchange (Forex) Risk: The Bank is exposed to transactional foreign currency exposure risk since it holds various exposures denominated in currencies other than the functional currency of the transacting currency. However, to contain and monitor this risk the Bank has adequate risk management procedures in place. The Forex Risk is monitored through the Aggregate Gap Limit (AGL). Further, market risk on options is calculated using scenario matrix based on parameters advised by the RBI.

Equities Risk: The Bank monitors its Equities risk i.e. investments in equity instruments as prescribed by the RBI. It calculates the RWAs for General market risk and Specific market risk on equities as prescribed by the RBI.

Earnings at Risk (EaR): Bank monitors and calculates its earnings at risk on a monthly basis for its trading portfolio. The limit to monitor EaR as mentioned as approved in the ALCO is INR 2,500 mio for 100bps movement in interest rates. Further, the Bank also monitors the Interest Rate Risk based on the Duration Gap approach.

Capital requirement for Market Risk	
Capital Required	**Rs in 000's**
- Interest Rate Risk	6,006,249
- Equity Position Risk	38,107
- Foreign Exchange Risk	90,000

11. FUNDING RISK: This is the risk that the Group is unable to achieve its business plans due to the following:

- **CAPITAL RISK**
- **LIQUIDITY RISK**

11.1CAPITAL RISK

Capital risk is the risk that the Group is unable to maintain appropriate capital ratios which could lead to:

(i) An inability to support business activity;
(ii) Failure to meet regulatory requirements; or
(iii) Changes to credit ratings.

Capital Management is integral to the Group's approach to financial stability and sustainability management and is therefore embedded in the way our businesses and legal entities operate. Our Capital Management strategy is driven by the strategic aims of the Group and the risk appetite set by the Board.

Barclays adopts a forward-looking, risk based approach to Capital Risk Management. Capital demand and supply is actively managed on a centralised basis, at a business level, at a local entity level and on a regional basis taking into account the regulatory, economic and commercial environment in which Barclays operates.

Capital Planning

Capital forecasts are managed on a top-down and bottom-up analysis through both Short Term and Medium Term financial planning cycles. The Group capital plan is developed with the objective of maintaining capital that is adequate in quantity and quality to support our risk profile and business needs.

Local management ensures compliance with an entity's minimum regulatory capital requirements by reporting to India Management Committee with oversight by the Treasury, as required.

Economic Capital

Economic capital is an internal measure of the risk profile of the bank expressed as the estimated stress loss at a 99.98% confidence level. Barclays assesses capital requirements by measuring the Group's risk profile using both internally and externally developed models. The Group assigns economic capital primarily within the following risk categories: credit risk, market risk, operational risk, fixed asset risk (property and equipment) and pension risk.

The Bank's capital management framework includes a comprehensive internal capital adequacy assessment process (ICAAP) conducted annually. The ICAAP assesses the capital adequacy of Barclays Bank PLC India given the current financial projections, the material risks to which it is exposed to and the strategy that the Bank employs for managing its risk profile. The capital assessment in the ICAAP uses the assessments based on the Group's Economic Capital (EC)

modeling and stress testing as well as regulatory requirements which are combined to give an overall assessment of the Bank's capital adequacy.

11.2 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. The 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. The Bank also prepares structural liquidity statements, dynamic liquidity statement and other liquidity reports to manage the liquidity position.

12. 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

The management of operational risk has two key objectives:

• To minimise the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (or unexpected) loss; and

•To improve the effective management of the Barclays Group and strengthen its brand and external reputation.

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 operates within a robust system of internal control that enables business to be transacted and risk taken without exposure to unacceptable potential losses or reputational damage. To this end, Barclays has implemented the Group Internal Control and Assurance Framework (GICAF) which is aligned with the internationally recognised Committee of Sponsoring Organisations of the Treadway Commission Framework (COSO).

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. Operational risk managers are widely distributed throughout the Group and support these areas, assisting line managers in understanding and managing their risks.

The Operational Risk Director (or equivalent) for each Business Unit is responsible for ensuring the implementation of and compliance with Group Operational Risk policies.

The Group Operational Risk Director is responsible for establishing, owning and maintaining an appropriate Group-wide Operational Risk Framework and for overseeing the portfolio of operational risk across the Group.

The Operational Risk Committee (ORC) is the senior executive body responsible for the oversight and challenge of operational risk in Barclays. The Group Operational Risk Executive Committee (GOREC) assists with this oversight. GOREC is a sub-committee of the ORC,

In addition, Governance and Control Committees (G&CCs) in each business monitor control effectiveness. The Group G&CC receives reports from these committees and considers Group-significant control issues and their remediation. The Group G&CC presents to the Board Audit Committee (BAC).

Business units are required to report their operational risks on both a regular and an event-driven basis. The reports include a profile of the material risks to their business objectives and the effectiveness of key controls, control issues of Group-level significance, operational risk events and a review of scenarios and capital. Specific reports are prepared on a regular basis for GOREC, ORC, and BAC.

Bank's 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 2012.

13. 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

From an EaR perspective, the gap reports indicate whether the Bank is in a position to benefit from rising interest rates by having a positive gap or whether it is in a position to benefit from declining interest rates by a negative gap. The Bank monitors the EaR with respect to net interest income (NII) based on a 200 basis points parallel shift in interest rate, over a horizon of one year

Rs in 000's

Currency	Interest rate shocks – Gain/(Loss)	
	2% increase	2% decrease
Rupees and other currency	24,325	(24,325)
US Dollar	33,962	(33,962)

ii. Economic value perspective

The Bank uses Value at Risk (VaR) methodology to measure the interest rate risk on the banking book. The VaR model, developed by Group market risk, is based on variance co-variance method. The model is updated with

1. The risk position (i.e. the cash flow profile)
2. Historical volatilities and
3. Correlations

Thereafter, it calculates the sensitivities (present value of a basis point) to compute the VAR at a 95% confidence level with one day horizon.

Rs in 000's

Currency	Value at risk
Rupees and other currency	13,801
US Dollar	1,028