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

Basel II - Pillar 3 disclosures of Barclays Bank Plc - Indian Branches for the year ended 31 March 2013

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 6 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 recognize 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.

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. Excess provision on sale of NPA portfolio.

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, 2013 capital base (Tier 1+Tier 2) of the Bank stood at Rs. 44,726,851 ('000s)

		Rs in 000's
A	Tier 1 Capital	**43,203,311**
	of which	
	-Paid-up Share Capital	52,495,224
	-Reserves and surplus	(4,028,226)
	Less: Deductions from Tier 1 Capital	
	-Amount deducted from Tier1 capital (Deferred Tax Asset & other Intangibles)	(5,262,862)
	-Debit balance in HO / Illiquidity Premium	(825)
B	Tier 2 Capital	
	of which	**1,523,540**
B.1	Other Tier 2 Capital:	
	- Provision for Standard Assets	1,278,070
	- Provision for Country Risk	1,051
	- Excess Provision on sale of NPA's	244,419
C	Total Eligible Capital	**44,726,851**

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 capitalization 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. The three year capital plans are further refreshed at quarterly intervals and the forecasts are updated to incorporate latest regulatory guidelines and business dynamics. These plans are reviewed in the India ALCO to assess any capital requirements.

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.

In terms of RBI guidelines for implementation of Basel II, capital charge for Credit and Market Risk for the financial year ended 31st March 2013 will be required to be maintained at the higher levels implied by Basel II or 80% of the minimum capital requirement computed as per the Basel I framework. For the year ended 31st March 2013, the minimum capital required to be maintained by the Bank as per Basel II guidelines is higher than that required at 80% of the capital requirements under Basel I guidelines.

During the year, the Reserve Bank of India had issued guidelines on implementation of Basel III capital regulation in India. These guidelines are to be implemented beginning 1st Jan 2014 in a phased manner and are to be fully implemented as on 31st March 2018. These guidelines cover the new capital regulations and liquidity risk management framework. The Bank has taken appropriate steps to ensure adoption of these guidelines within the timeframe stipulated by RBI. An assessment of capital requirements under Basel III has been conducted.

A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 31st March 2013 is presented below.

		Rs in 000's
A	**Capital Requirement for Credit Risk**	**1,63,496,539**
	(Standardised Approach)	
	I) On-balance sheet exposures excluding securitisation exposures	70,232,204
	II) Off- balance sheet exposures excluding securitisation exposures	93,214,109
	a) Non-market related	5,790,877
	b) Market-related	87,423,232
	III) On-balance sheet-securitisation exposures	-
	IV) Counterparty Risk as Borrower of funds	50,226
B	**Capital Requirement for Market Risk**	**55,388,584**
	(Standardised Duration Approach)	
	Interest rate related instruments	51,007,517
	Equity	381,067
	Foreign Exchange and Gold	4,000,000
C	**Operational-risk-weighted exposures**	**15,429,703**
	(Basic Indicator Approach)	
D	**Capital Adequacy Ratio of the Bank**	**19.09%**
E	**Tier 1 CRAR (%)**	**18.44%**

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.

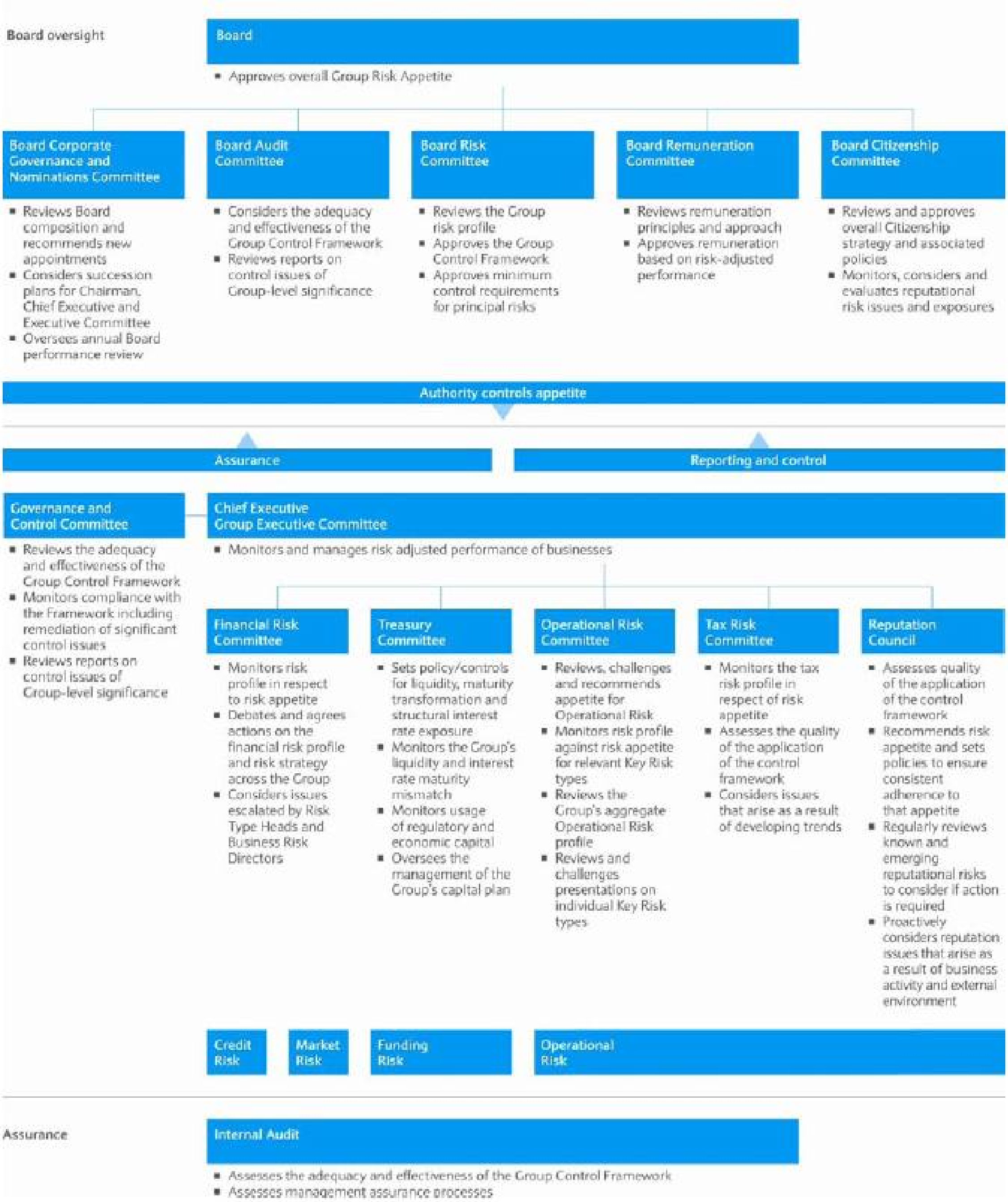
As well as Group-level Mandate & Scale limits, further limits are set by risk managers within each business unit, covering particular portfolios.

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.



Board oversight

Board
- Approves overall Group Risk Appetite

Board Corporate Governance and Nominations Committee
- Reviews Board composition and recommends new appointments
- Considers succession plans for Chairman, Chief Executive and Executive Committee
- Oversees annual Board performance review

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

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

Board Remuneration Committee
- Reviews remuneration principles and approach
- Approves remuneration based on risk-adjusted performance

Board Citizenship Committee
- Reviews and approves overall Citizenship strategy and associated policies
- Monitors, considers and evaluates reputational risk issues and exposures

Authority controls appetite

Assurance

Reporting and control

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

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

Financial Risk Committee
- Monitors risk profile in respect to risk appetite
- Debates and agrees actions on the financial risk profile and risk strategy across the Group
- Considers issues escalated by Risk Type Heads and Business Risk Directors

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

Operational Risk Committee
- Reviews, challenges and recommends appetite for Operational Risk
- Monitors risk profile against risk appetite for relevant Key Risk types
- Reviews the Group's aggregate Operational Risk profile
- Reviews and challenges presentations on individual Key Risk types

Tax Risk Committee
- Monitors the tax risk profile in respect of risk appetite
- Assesses the quality of the application of the control framework
- Considers issues that arise as a result of developing trends

Reputation Council
- Assesses quality of the application of the control framework
- Recommends risk appetite and sets policies to ensure consistent adherence to that appetite
- Regularly reviews known and emerging reputational risks to consider if action is required
- Proactively considers reputation issues that arise as a result of business activity and external environment

Assurance

Internal Audit
- 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.

Each Key Risk is owned by a senior individual known as the Group Key Risk Owner who is responsible for proposing a risk appetite statement and managing the risk in line with the Principal Risks Policy. This includes the documentation, communication and maintenance of a risk control framework which makes clear, for every business across the firm, the mandated control requirements in managing exposures to that Key Risk.

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 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.

6.1 Credit risk management objectives and policies:

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.

6.1.1 Strategies and Processes

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;
- Optimize 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.

The Group's approach is to provide direction on: understanding the principal risks to achieving Group strategy; establishing risk appetite; and establishing and communicating the risk management framework. The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Steps	Activity
Identify	Establish the process for identifying and understanding business-level risks.
Assess	Agree and implement measurement and reporting standards and methodologies.
Control	Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements.
	Monitor the operation of the controls and adherence to risk direction and limits.
	Provide early warning of control or appetite breaches.
	Ensure that risk management practices and conditions are appropriate for the business environment.
Report	Interpret and report on risk exposures, concentrations and risk-taking outcomes.
	Interpret and report on sensitivities and Key Risk Indicators.
	Communicate with external parties.
Manage and Challenge	Review and challenge all aspects of the Group's risk profile.
	Assess new risk-return opportunities.
	Advise on optimizing the Group's risk profile.
	Review and challenge risk management practices.

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.

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.

6.1.2 Structure and organization of the relevant risk management function

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 Chief Risk Officer (CRO). Chief Risk Officers for each business report jointly to Head, Group Risk and also to their business CEO; however their primary reporting line is into Risk function.

Credit risk approval is undertaken by experienced credit risk professionals operating within a clearly defined delegated authority framework, with only the most senior credit officers entrusted with the higher levels of delegated authority. The largest credit exposures are approved at the Credit Committee which is managed by Group Risk.

6.1.3 Risk reporting and / or measurement

This process for clear and accurate reporting of credit risk is summarised in four broad stages:

- measuring exposures and concentrations;
- monitoring weaknesses in portfolios;
- raising allowances for impairment and other credit provisions; and
- returning assets to a performing status or writing off assets when the whole or part of a debt is considered irrecoverable.

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 for our 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
- 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

6.1.4 Policies for hedging and / or mitigating risk

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.

6.1.5 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/ 2011-12 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.

6.2 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.

6.2.1 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.

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 .

6.2.2 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.

6.2.3 Credit Risk exposures

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

				Rs in 000's
		Domestic	**Overseas**	**Total**
A)	Fund Based #	84,723,495		84,723,495
B)	Non Fund Based *	8,477,050		8,477,050
	Total	**93,200,545**		**93,200,545**

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	-	-
3	Iron and Steel	-	-
4	Other Metal and Metal products	93,122	103,348
5	All Engineering	1,360,389	869,556
6	Electricity	-	-
7	Cotton Textiles	370,955	-
8	Jute Textiles	-	-
9	Other Textiles	-	-
10	Sugar	-	-
11	Tea	-	-
12	Food Processing	1,250,000	222,569
13	Vegetable Oil and Vanaspati	-	392,689
14	Tobacco and Tobacco Products	90,000	-
15	Paper and Paper Products	19,615	-
16	Rubber and Rubber Products	412,915	643,206
17	Chemicals, Dyes, Paints etc.	1,138,949	-
18	Cement	-	-
19	Leather and Leather Products	-	-
20	Gems and Jewellery	-	-
21	Construction	1,325,396	268,711
22	Petroleum	7,328,475	-
23	Automobiles including trucks	1,100,000	-
24	Computer Software	-	-
25	Infrastructure	12,227,200	1,189,638
26	NBFCs & Trading	5,449,996	-
27	Other Industries	25,734,337	2,331,336
28	Banking Sector	-	-
29	Retail Loans	932,945	-
30	Residual exposures	25,889,201	2,455,997
	Total	**84,723,495**	**8,477,050**

c) Residual Contractual Maturity Breakdown of Advances		
Sr. No.	**Maturity bucket**	**Rs in 000's**
1	1 day	7,965,168
2	2 to 7 days	151,636
3	8 to 14 days	9,975,083
4	15 to 28 days	8,071,929
5	29 days to 3 months	7,005,518
6	3 to 6 months	14,217,563
7	6 to 12 months	20,163,220
8	1 to3 years	14,762,126
9	3 to 5 years	1,519,592
10	Over 5 years	891,660
	Total	**84,723,495**

d) Movement of NPAs and Provision for NPA (Loans and Advances Portfolio)

		Rs in 000's
A	Amount of NPAs (Gross)	**5,542,957**
	- Substandard	2,295,126
	- Doubtful	2,993,710
	- Loss	254,121
B	**Net NPAs**	1,473,446
C	**NPA Ratios**	
	-Net NPAs to Net advances	1.74%
D	**Movement of NPAs (Gross)**	
	-Opening balance as on 1 April 2012	5,471,478
	-Additions	2,768,984
	-Reductions	2,697,505
	-Closing balance as at 31 March 2013	**5,542,957**
E	**Movement of NPAs (Net)**	
	-Opening balance as on 1 April 2012	1,253,973
	-Additions	744,242
	-Reductions	524,769
	-Closing balance as at 31 March 2013	**1,473,446**
F	**Movement of Provision for NPAs**	
	-Opening balance as on 1 April 2012	4,217,505
	-Provision made in FY 2012-13	2,069,806
	- Write –offs	2,217,802
	-Closing balance as at 31 March 2013	**4,069,509**

e) NPIs and movement of Provision for Depreciation on NPIs

		Rs in 000's
A	**Amount of Non-Performing Investments**	**275,000**
B	**Amount of provision held for non – performing investments**	**275,000**
C	**Movement of provisions for depreciation on investments**	
	-Opening balance as on 1 April 2012	-
	- Provision made in FY 2012-13	275,000
	- Write –offs	-
	- Write back of excess provisions	-
	-Closing balance as at 31 March 2013	**275,000**

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 :	
-Below 100% risk weight	39,175,069
- 100% risk weight	41,811,050
-More than 100% risk weight	3,737,376
* The above comprises of Loans & Advances as reported under Schedule 9 of Balance Sheet.	

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.

Details of Total Credit Exposure (after on or off Balance sheet Netting) as on 31st Mar'2013.

	Amount Rs (000s)
Covered by Eligible Financial Collaterals after application of haircuts	-
Covered by Guarantees #/ Credit Derivatives	21,959,543

Issued by Bank/ Government.

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	-	-
TOTAL		

*

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	-	-	-
=100% risk weight	-	-	-
> 100% risk weight	-	-	-
TOTAL	-	-	-

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

10 MARKET RISK

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 runs two types of market risk in its Indian entity – traded and non-traded market risk. Traded risk in the businesses resides primarily in Investment Bank (more specifically referred as Trading Book), while non-traded market risk resides mainly in Retail and Business Banking, Corporate Banking, Wealth and Investment Management and Treasury (more specifically referred as Banking Book).

Barclays market risk objectives are to:

- Understand and control market risk by robust measurement, limit setting, reporting and oversight;
- Facilitate business growth within a controlled and transparent risk management framework;
- Ensure that traded market risk in the businesses resides primarily in the trading book;
- Minimize non-traded market risk.

Barclays Investment Bank manages the market risk of underlying positions (internal as well as external) as part of its day-to-day trading operations within the VaR, stress and position limits set by Risk. The limit structure is guided by the market risk policies and governance framework.

Positions across the Investment Bank are reported through a variety of reports on periodic basis to various audiences including Regional Level Business Heads, Global Business Heads, Market Risk Heads, Market Risk Asset Class Heads and IB Executive Committee, which includes members from Senior Management of the Bank, to assist management and board in their respective oversight roles. A daily MIS, detailing various limits and corresponding utilization is sent to the Indian Executive Committee which consists of senior management personnel.

10.1 Market Risk Measurement

Barclays uses VaR based (DvaR) and non-VaR Based (IR01, CS01) risk measurements to monitor the market risk. These measurements are further complemented by stress testing of both primary and secondary risk factors and scenario analysis. Details of the same are as following:

A. Trading Book

  a. **Market risk on interest rate products:** The bank calculates its Interest rate risk on its trading portfolio using the Duration method. It also calculates CS01 (risk measurement for 1 bps increase in credit spread) on the corporate bonds portfolio.

  b. **Foreign Exchange (Forex) Risk:** The Forex Risk is monitored through linear measures (Delta) and higher order Greek limits along with other regulatory limits (NOP, AGL) on daily basis.

  c. **Equities Risk:** The bank monitors its Equities risk i.e. investments in equity instruments using General market risk and Specific market risk model, as prescribed by the RBI.

B. Banking Book

  a. **Earnings at Risk (EaR):** EaR measures the impact on Net Interest Income for a certain shock in interest rates from short term perspective. The bank monitors and calculates its earnings at risk on a monthly basis for its banking book.

  b. **Duration Gap Analysis (DGaP):** Duration Gap approach measures the impact of interest rate shocks on bank's economic value of capital from long term perspective. The bank measures, monitors and reports the DGaP to the local regulator as part of the monthly return.

C. Risk Aggregation Techniques

  a. **DvaR:** The aggregated risk is monitored through Daily Management Var, which is an estimate of the potential loss arising from unfavorable market movements, if the current positions were to be held unchanged for one business day. The bank 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 model is regularly assessed and reviewed using back-testing which counts the number of days when trading losses exceed the corresponding DVaR estimate and subject to independent model validation at least annually.

  b. **Stress Test:** On weekly basis, the bank performs stress testing which 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 stresses cover illiquid risks, risks associated with structural positions and risks not otherwise captured within the stress framework. The principle aim of Secondary Stress Tests is to highlight illiquid, concentrated and idiosyncratic risk and to monitor the firm's exposure to these.

Capital requirement for Market Risk	
Capital Required	**Rs in 000's**
- Interest Rate Risk	4,590,677
- Equity Position Risk	34,296
- Foreign Exchange Risk	3,60,000

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**

11.1 CAPITAL 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.

Under the Liquidity Framework, the Group has established the Liquidity Risk Appetite, which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. It is measured with reference to anticipated stressed net contractual and contingent outflows under stress scenarios and is used to size the liquidity pool. Under normal market conditions, the liquidity pool is managed to be at least 100% of anticipated outflows under stress. The Group is primarily focused upon the one month Barclays-specific stress scenario, which results in the greatest net outflows of each of the liquidity stress tests. The combined one month scenario assumes outflows consistent with a firm-specific stress for the first two weeks of the stress period, followed by relatively lower outflows consistent with a market-wide stress for the remainder of the stress period.

12. OPERATIONAL RISK

12.1 Overview

Operational risk is the risk of direct or indirect losses resulting from human factors, external events, and inadequate or failed internal processes and systems or external event s.

Operational risks are inherent in the Bank's business activities and are typical of any large enterprise. t is not cost effective to attempt to eliminate all operational risks and in any event it would not be possible to do so. Losses from operational risks of small significance are expected to occur and are accepted as part of the normal course of business. Those of material significance are rare and the Bank seeks to reduce the likelihood of these in accordance with its risk appetite.

The management of operational risk has two key objectives:

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

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

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

12.2 Organization and Structure

Operational Risk is one of four Principal Risks in the Barclays Principal Risks Policy and comprises a number of specific Key Risks defined as follows:

- Cyber Security: Risk of loss or detriment to Barclays business and customers as a result of actions committed or facilitated through the use of networked information systems;
- External supplier: Inadequate selection and ongoing management of external suppliers;
- Financial reporting: Reporting mis-statement or omission within external financial or regulatory reporting;
- Fraud: Dishonest behaviour with the intent to make a gain or cause a loss to others;
- Information: Inadequate protection of Barclays information in accordance with its value and sensitivity;
- Legal: Failure to identify and manage legal risks;
- Product: Inadequate design, assessment and testing of products/ services;
- Payment process: Failure in operation of payments processes;
- People: Inadequate people capabilities, and/or performance/reward structures, and/or inappropriate behaviours;

- Premises & security: Unavailability of premises (to meet business demand) and/or safe working environments, and inadequate protection of physical assets, employees and customers against external threats;
- Regulatory: Failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry;
- Taxation: Failure to comply with tax laws and practice which could lead to financial penalties, additional tax charges or reputational damage;
- Technology: Failure to develop and deploy secure, stable and reliable technology solutions; and
- Transaction operations: Failure in the management of critical transaction processes.

These risks may result in financial and/or non-financial impacts including legal/regulatory breaches or reputational damage.

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 Bank and support these areas, assisting line managers in understanding and managing their risks.

The Risk Committee is the senior executive body responsible for the oversight and challenge of operational risk in Barclays.

Businesses 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.

12.3 Operational risk management framework

The Barclays Operational risk framework has been designed to meet a number of external governance requirements including Basel. The Operational risk framework includes the following elements:

i. Risk assessments

Barclays identifies and assesses all material risks within each business and evaluates the key controls in place to mitigate those risks. Managers in the businesses use self-assessment techniques to identify risks, evaluate the effectiveness of key controls in place and assess whether the risks are effectively managed within business risk appetite. The businesses are then able to make decisions on what, if any, action is required to reduce the level of risk to Barclays. These risk assessments are monitored on a regular basis to ensure that each business continually understands the risks it faces.

ii. Risk events

An operational risk event is any circumstance where, through the lack or failure of a control, Barclays has actually, or could have, made a loss. The definition includes situations in which Barclays could have made a loss, but in fact made a gain, as well as incidents resulting in reputational damage or regulatory impact only. As part of our analysis we seek to identify where improvements are needed to processes or controls, to reduce the recurrence and/or magnitude of risk events.

iii. Key indicators

Key Indicators (KIs) are metrics which allow Barclays to monitor its operational risk profile. KIs include measurable thresholds that reflect the risk appetite of the business. KIs are monitored to alert management when risk levels exceed acceptable ranges or risk appetite levels and drive timely decision making and actions.

iv. Insurance

As part of its risk management approach, Barclays also uses insurance to mitigate the impact of some operational risks.

v. Operational risk appetite

Barclays approach to determining appetite for Operational risk combines both quantitative measures and qualitative judgement, in order to best reflect the nature of non-financial risks.
The monitoring and tracking of Operational risk measures is supplemented with qualitative review and discussion at senior management executive committees on the action being taken to improve controls and reduce risk to an acceptable level. Operational risk appetite is aligned to the Bank's Risk Appetite Framework.

vi. Reporting

The ongoing monitoring and reporting of Operational risk is a key component of an effective Operational risk Framework. Reports are used by the Operational risk function and by business management to understand, monitor, manage and control operational risks and losses.

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 2013.

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 bank's 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	-245,089	245,089
US Dollar	97,808	-97,808

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	951,939
US Dollar	40,024