



**ICICI Bank UK PLC**

**Basel II - Pillar 3 disclosures for the year  
ended 31 March 2011**

## **1. Overview**

### **Background**

ICICI Bank UK PLC (“the Bank”) is a UK bank regulated by the Financial Services Authority (FSA) and a wholly owned subsidiary of ICICI Bank Limited. ICICI Bank UK PLC has adopted from 1 January 2008 the guidelines issued under the Basel II regime. The Capital Requirements Directive (Basel II) sets out new disclosure requirements for banks operating under the Framework. This documents details the Pillar 3 disclosure requirements and is in addition to the consolidated Basel II – Pillar 3 Disclosures made by ICICI Bank Limited (“the Parent Bank”).

### **Basis of disclosures**

The disclosures have been prepared for ICICI Bank UK PLC.

### **Scope of application of Directive requirements**

The Pillar 3 disclosures have been prepared for ICICI Bank UK PLC in accordance with the rules laid out in the FSA handbook BIPRU Chapter 11. These disclosures should be read in conjunction with those made by the Parent Bank as part of their Basel II – Pillar 3 Disclosures (Consolidated).

### **Frequency**

This report will be made on an annual basis. The disclosures will be as at the Accounting Reference Date (ARD), i.e. as at 31 March, and will be published along with the publication of the Annual Report & Accounts .

### **Media and Location**

The report will be published on the ICICI Bank UK PLC corporate website as part of the Annual Report ([http://www.icicibank.co.uk/personal/basel\\_disclosures.html](http://www.icicibank.co.uk/personal/basel_disclosures.html)). The Parent Bank’s consolidated disclosures for FY2011 are available at <http://www.icicibank.com/aboutus/invest-disclosure.html>.

### **Verification**

The Pillar 3 disclosures have been prepared purely for explaining the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Bank.

## 2. Capital adequacy

The Bank determines its Pillar 1 regulatory capital requirement based on the following approaches:

- Credit risk - standardized approach
- Operational risk – basic indicator approach
- Market risk - standardized approach adopting the following methodologies:
  - Interest rate risk – Maturity Ladder approach
  - Foreign exchange risk – Standardized approach
  - Options risk – Standardized approach

The Bank plans to always maintain capital over and above the minimum required in order to meet its projected growth.

The Bank estimates the capital requirements in line with the regulatory guidelines issued by FSA. Capital is provided for the purposes of unforeseen and unexpected events based on the risk assessment for each of the underlying asset classes in the Bank's portfolio. Further, in line with industry practice, the Bank acknowledges that capital is not the only mitigating factor for all unforeseen events and contingencies therefore appropriate risk management and governance practices are in place to actively monitor the risks the Bank is exposed to in the course of executing its business. Further, the Bank in line with the regulatory requirements of FSA and the Parent Bank's regulator RBI has instituted an Internal Capital Adequacy Assessment Process (ICAAP) which is used to estimate the capital requirements in line with the risk appetite of the Bank. The ICAAP is approved by the Board Risk and Credit Committee (BRCC) of the Bank.

The amount and composition of the Bank's capital requirement is determined by assessing the minimum capital requirement under Pillar 1 based upon the Capital Requirements Directive (CRD), the impact of stress and scenario tests, the Bank's Individual Capital Guidance and the capital requirement that is consistent with the Bank's target external rating.

The following table shows the Bank's Pillar 1 capital requirement by each of the standardised credit risk exposure classes:

|  | USD million                                      |
|--|--|
| Standardised approach – asset classes          | Pillar 1 Capital requirement as at 31 March 2011 |
| Central government or central banks            | 0.00   |
| Institutions                                   | 43.45  |
| Corporate                                      | 282.36   |
| Retail   | 0.06   |
| Securitised investments                        | 16.58  |
| Short term claims on institutions or corporate | 41.28  |
| CIU  | 2.10   |
| Other items                                    | 16.41  |
| <b>Total</b>                                   | <b>402.24</b>                                    |

### 3. Counterparty credit risk

Counterparty credit risk (CCR) in the context of this disclosure is the risk that the counterparty to a derivative transaction posted to either the Banking Book or Trading Book could default before the final settlement of the transaction's cash flows.

The Bank measures exposure value on counterparty credit exposures under the CCR mark to market method. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contracts potential credit exposure, which is derived by applying a multiple based on the contracts residual maturity to the notional value of the contract.

As at 31 March 2011, the notional principal values of the derivative instruments along with the gross positive and gross negative fair value were:

USD million

| Instrument              | Non- Trading       | Trading            |                           |                           |
|-------------------------|--------------------|--------------------|---------------------------|---------------------------|
|                         | Notional Principal | Notional Principal | Gross Positive Fair value | Gross Negative Fair value |
| Exchange rate contracts | 1,161,637          | 2,213,544          | 125,357                   | 120,915                   |
| Interest rate contracts | 291,711            | 2,470,806          | 45,914                    | 51,538                    |

The following table details the counterparty credit risk exposure calculation:

USD million

|   | Value         |
|---|---------------|
| Gross positive fair value of contracts    | 182.56        |
| Potential credit exposure                 | 94.94         |
| <b>Counterparty credit risk exposures</b> | <b>277.50</b> |

### 4. Credit risk and dilution risk

#### Loan impairment provisions

The Group regularly reviews its loan portfolios to assess for impairment. Impairment provisions are established to recognise incurred impairment losses in loan portfolios carried at amortised cost. In determining whether an impairment has occurred at the balance sheet date, the Bank considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on loan repayment obligations.

Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

The following tables show amounts of the impaired and past due loans for the Bank as at 31 March 2011.

USD million

| Loans and Advances     | Specific impairment allowance | Collective impairment allowance | Total        |
|------------------------|-------------------------------|---------------------------------|--------------|
| Opening Balance        | 22.19                         | 20.73                           | 42.92        |
| New charges            | 15.42                         | 3.20                            | 18.62        |
| Write-offs             | (0.70)                        | (0.83)                          | (1.54)       |
| <b>Closing balance</b> | <b>36.91</b>                  | <b>23.10</b>                    | <b>60.00</b> |

USD million

| Loans and Advances       | Specific impairment allowance |
|--------------------------|-------------------------------|
| Europe and North America | 27.53                         |
| India                    | 0.00                          |
| Rest of the world        | 9.38                          |
| <b>Closing balance</b>   | <b>36.91</b>                  |

USD million

| AFS Securities         | Specific impairment allowance |
|------------------------|-------------------------------|
| Opening Balance        | 16.02                         |
| New charges            | 14.91                         |
| Write-offs             | (16.02)                       |
| <b>Closing balance</b> | <b>14.91</b>                  |

USD million

| AFS Securities           | Specific impairment allowance |
|--------------------------|-------------------------------|
| Europe and North America | 14.91                         |
| India                    | 0.00                          |
| Rest of the world        | 0.00                          |
| <b>Closing balance</b>   | <b>14.91</b>                  |

### Valuation of financial instruments

The Bank values its investments at fair market value. The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not market observable. Valuation techniques that rely to a greater

extent on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

### Analysis of credit risk exposures

The following tables detail the Bank's regulatory credit risk exposures as on 31 March 2011.

#### (i) Analysis of exposure by asset class

USD million

| <b>Asset class</b>                              | <b>Risk exposure as at 31<sup>st</sup> March 2011</b> |
|---|---|
| Central government or central banks             | 649.35  |
| Institutions                                    | 1,142.19  |
| Corporate                                       | 3,706.16  |
| Retail  | 0.84  |
| Securitised investments                         | 321.94  |
| Short term claims on institutions or corporates | 992.80  |
| CIU   | 26.27   |
| Other items                                     | 435.88  |
| <b>Total</b>                                    | <b>7,275.42</b>                                       |

#### (ii) Geographic distribution of exposures (based on country of residence or domicile) by significant asset class

USD million

| <b>Exposure to corporate in</b> | <b>Exposure value</b> |
|---------------------------------|-----------------------|
| Europe and North America        | 2,310.81              |
| India                           | 284.24                |
| Rest of the world               | 1,496.64              |
| <b>Total</b>                    | <b>4,091.69</b>       |

USD million

| <b>Exposure to institutions in</b> | <b>Exposure value</b> |
|------------------------------------|-----------------------|
| Europe and North America           | 717.43                |
| India                              | 597.57                |
| Rest of the world                  | 434.47                |
| <b>Total</b>                       | <b>1,749.47</b>       |

USD million

| <b>Exposure to securitised investments in</b> | <b>Exposure value</b> |
|---|-----------------------|
| Europe and North America                      | 321.94                |
| India   | -                     |
| Rest of the world                             | -                     |
| <b>Total</b>                                  | <b>321.94</b>         |

(iii) Residual maturity breakdown of exposures by significant asset class

USD million

| Exposure to corporate with maturity of | Exposure value  |
|--|-----------------|
| Over 5 years                           | 114.42          |
| 5 years or less but over 1 year        | 2,539.16        |
| 1 year or less but over 3 months       | 653.56          |
| 3 months or less                       | 784.55          |
| <b>Total</b>                           | <b>4,091.69</b> |

USD million

| Exposure to institutions with maturity of | Exposure value  |
|---|-----------------|
| Over 5 years                              | 93.47           |
| 5 years or less but over 1 year           | 672.88          |
| 1 year or less but over 3 months          | 377.23          |
| 3 months or less                          | 605.89          |
| <b>Total</b>                              | <b>1,749.47</b> |

USD million

| Exposure to securitised investments with maturity of | Exposure value |
|--|----------------|
| Over 5 years   | 300.78         |
| 5 years or less but over 1 year                      | 21.16          |
| 1 year or less but over 3 months                     | -              |
| 3 months or less                                     | -              |
| <b>Total</b>   | <b>321.94</b>  |

**5. Credit risk: Standardised approach**

The Bank uses external credit assessments provided by Moody's, Standard & Poor's and Fitch. These are all recognised by the FSA as eligible external credit assessment institutions (ECAI) for the purpose of calculating credit risk requirements under the standardised approach.

The following table details the ECAIs used for the standardised credit risk exposure classes.

| Asset class                         | ECAI                              |
|-------------------------------------|-----------------------------------|
| Central government or central banks | Standard & Poor's, Moody's, Fitch |
| Institutions                        | Standard & Poor's, Moody's, Fitch |
| Corporate                           | Standard & Poor's, Moody's, Fitch |
| Securitised investments             | Standard & Poor's, Moody's, Fitch |

The following tables detail the standardised credit risk exposures by credit quality steps (CQS):

| CQS for long term corporate exposure | Risk weight<br>% | Exposure<br>USD million | Exposure after credit risk mitigation<br>USD million |
|--------------------------------------|------------------|-------------------------|--|
| 1                                    | 20.00%           | 0.00                    | 0.00   |
| 2                                    | 50.00%           | 85.41                   | 85.41  |
| 3                                    | 100.00%          | 69.40                   | 69.40  |
| 4                                    | 100.00%          | 310.92                  | 310.92   |
| 5                                    | 150.00%          | 82.27                   | 82.27  |
| 6                                    | 150.00%          | 0.00                    | 0.00   |
| Unrated - non default                | 100.00%          | 3,502.94                | 3,502.94   |
| Unrated – Past due                   | 100.00%          | 36.96                   | 36.96  |
| Unrated – Defaulted                  | 150.00%          | 14.07                   | 14.07  |
| <b>Total</b>                         |                  | <b>4,091.69</b>         | <b>4,091.69</b>                                      |

| CQS for long term institutional exposure | Risk weight<br>% | Exposure<br>USD million | Exposure after credit risk mitigation<br>USD million |
|--|------------------|-------------------------|--|
| 1  | 20.00%           | 187.61                  | 187.61   |
| 2  | 50.00%           | 507.04                  | 507.04   |
| 3  | 50.00%           | 277.27                  | 277.27   |
| 4  | 100.00%          | 7.31                    | 7.31   |
| 5  | 100.00%          | 18.11                   | 18.11  |
| 6  | 150.00%          | 0.00                    | 0.00   |
| Unrated - non default                    | 50.00%           | 144.85                  | 144.85   |
| Unrated – Past due                       | 50.00%           | 0.00                    | 0.00   |
| Unrated – Defaulted                      | 150.00%          | 0.00                    | 0.00   |
| <b>Total</b>                             |                  | <b>1,142.19</b>         | <b>1,142.19</b>                                      |

| CQS for short term institutional exposure | Risk weight<br>%    | Exposure<br>USD million | Exposure after credit risk mitigation<br>USD million |
|---|---------------------|-------------------------|--|
| 1   | 20.00%              | 20.64                   | 20.64  |
| 2   | 20.00%              | 178.08                  | 178.08   |
| 3   | 20.00%              | 271.06                  | 271.06   |
| 4   | 50.00%              | 0.00                    | 0.00   |
| 5   | 50.00%              | 0.00                    | 0.00   |
| 6   | 150.00%             | 0.00                    | 0.00   |
| Unrated - non default                     | 20.00% <sup>1</sup> | 136.95                  | 136.95   |
| Unrated – Past due                        | 20.00% <sup>1</sup> | 0.00                    | 0.00   |
| Unrated – Defaulted                       | 150.00%             | 0.00                    | 0.00   |
| <b>Total</b>                              |                     | <b>607.27</b>           | <b>607.27</b>  |



<sup>1</sup> Subject to Sovereign rating

| CQS for securitised investments | Risk weight<br>% | Exposure<br>USD million | Exposure after credit risk mitigation<br>USD million |
|---------------------------------|------------------|-------------------------|--|
| 1                               | 20.00%           | 129.53                  | 129.53   |
| 2                               | 50.00%           | 101.11                  | 101.11   |
| 3                               | 100.00%          | 51.71                   | 51.71  |
| 4                               | 350.00%          | 39.59                   | 39.59  |
| <b>Total</b>                    |                  | <b>321.94</b>           | <b>321.94</b>  |

| CQS for central government or central banks | Risk weight<br>% | Exposure<br>USD million | Exposure after credit risk mitigation<br>USD million |
|---|------------------|-------------------------|--|
| 1   | 0.00%            | 649.35                  | 649.35   |
| <b>Total</b>                                |                  | <b>649.35</b>           | <b>649.35</b>  |

Fixed assets and other assets attract a risk weight of 100%.

## 6. Exposures to equities in the non-trading book

The Bank has exposure to equities in the non-trading book as of 31 March, 2011.

| CQS for CIU           | Risk weight<br>% | Exposure<br>USD million | Exposure after credit risk mitigation<br>USD million |
|-----------------------|------------------|-------------------------|--|
| Unrated – non default | 100.00%          | 26.27                   | 26.27  |
| <b>Total</b>          |                  | <b>26.27</b>            | <b>26.27</b>   |

## 7. Exposures to interest rate risk in the non-trading book

Interest rate risk – Interest rate risk is defined as the exposure of a bank's financial condition to adverse movements in interest rates. Earnings from interest sensitive investments and the overall value of the investment portfolio will be impacted by changes in interest rates.

The Treasury Policy Manual currently sets out the measurement process to include the use of re-pricing gap reports and estimation of the sensitivity of the Bank's net interest income to a 100 basis points adverse change in the level of interest rates (defined as Earnings at Risk). The various limits set for interest rate risk are monitored and the utilizations reported to Asset Liability Management Committee (ALCO) and BRCC on a periodic basis.

The impact of an increase in interest rates on fixed income (fixed and floating rate) investments as at 31 March 2011, (broken down by currency) assuming a parallel shift in yield curve, has been set out in the following table:

Equivalent in USD million

| Currency     | Impact on reserves                    |                                       |
|--------------|---------------------------------------|---------------------------------------|
|              | Increase in interest rates by 100 bps | Increase in interest rates by 200 bps |
| EUR          | 1.08                                  | 2.16                                  |
| USD          | 2.38                                  | 4.75                                  |
| GBP          | 0.21                                  | 0.42                                  |
| Others       | 0.19                                  | 0.38                                  |
| <b>Total</b> | <b>3.85</b>                           | <b>7.70</b>                           |

Volatility in interest rates has an impact on an entity's interest earnings. The impact of an increase in interest rates on the Bank's net interest income as at 31 March 2011, assuming a parallel shift in the yield curve, has been set out in the following table:

Equivalent in USD million

| Currency     | Impact on net interest income         |                                       |
|--------------|---------------------------------------|---------------------------------------|
|              | Increase in interest rates by 100 bps | Increase in interest rates by 200 bps |
| EUR          | 0.70                                  | 1.40                                  |
| USD          | 6.50                                  | 13.00                                 |
| GBP          | 7.30                                  | 14.70                                 |
| Others       | 0.00                                  | 0.00                                  |
| <b>Total</b> | <b>14.50</b>                          | <b>29.00</b>                          |