ICICI Bank UK PLC

Pillar 3 disclosures for the year ended March 31, 2015

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1. Overview

1.1 Background

ICICI Bank UK PLC ("the Bank") is a UK bank authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA). The Bank is a wholly owned subsidiary of ICICI Bank Limited, India.

Capital Requirements Regulation (CRR) and Capital Requirements Directive (together referred to as CRD IV) came into force on 1st January 2014 and enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulatory Authority (PRA). The rules include disclosure requirements known as "Pillar 3" which apply to banks and building societies.

This document details the Pillar 3 disclosure requirements and is in addition to the consolidated Basel III – Pillar 3 Disclosures made by ICICI Bank Limited ("the Parent Bank").

1.2 Basis of disclosures

The disclosures have been prepared for ICICI Bank UK PLC. The disclosures may differ from similar information in the Annual Report prepared in accordance with UK GAAP; therefore, the information in these disclosures may not be directly comparable with that information. 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.

1.3 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 CRD IV guidelines as adopted by the PRA. These disclosures should be read in conjunction with those made by the Parent Bank as part of their Basel III – Pillar 3 Disclosures. The disclosures provide information on the Bank's exposures, associated risk weights for different categories of assets and approach to calculating the capital requirements for Pillar 1.

1.4 Frequency

This disclosure will be made on an annual basis on the website of the Bank. 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.

1.5 Media and Location

The Annual Report will be published on the Bank's website (http://www.icicibank.co.uk/personal/about-us.html). The Pillar 3 disclosures will also be published on the Bank's website (http://www.icicibank.co.uk/personal/basel_disclosures.html) . The Parent Bank's consolidated disclosures for FY2015 are available at http://www.icicibank.com/aboutus/invest-disclosure.html .

2. Capital adequacy

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank's approach to managing capital is designed to ensure that current and expected regulatory capital is met. The Bank's capital position remained healthy throughout FY2015.

In June 2013, the European Commission published the final Regulation and Directive, known collectively as CRD IV, to give effect to the Basel III framework in the EU. In December 2013, the PRA issued its final rules on CRD IV in a Policy Statement PS 7/13. In its final rules, the PRA opted for an acceleration of the CRD IV end point definition of CET1. This came into effect on January 01, 2014. The Bank successfully implemented the CRD IV liquidity and capital reporting requirements along with complying with the other requirements of the directive. It may be noted that more clarity is expected on quantification and interaction of capital buffers and Pillar 2, where further PRA consultations are due in 2015.

The Bank's regulatory capital is categorized into two tiers:

- Tier 1 capital, which includes ordinary share capital, capital redemption reserve, retained earnings and necessary reductions under CRD IV.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective provision, other allowances and necessary reductions under CRD IV.

Various limits are applied to the elements of the capital base. Qualifying Tier 2 capital cannot exceed Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50% of Tier 1 capital. There are also restrictions on the amount of collective provision that may be included in Tier 1 capital. There are regulatory adjustments applied to the computation of regulatory capital under the CRDIV guidelines.

The amount and composition of the Bank's capital requirement is determined by assessing the minimum capital requirements under Pillar 1 based upon the Capital Requirements Directive, the impact of stress and scenario tests and the Bank's Individual Capital Guidance.

The Bank's regulatory capital requirements are set and monitored by the Prudential Regulation Authority (PRA). The Bank uses regulatory capital ratios in order to monitor its capital base. The PRA's approach to such measurement is now primarily based on monitoring the Capital Resource Requirement to available capital resources. The PRA also sets individual capital guidance (ICG) for the Bank that sets capital requirements in excess of the minimum Capital Resource Requirement. The Bank continues to comply with the Individual Capital Guidance (ICG) as stipulated by the PRA.

A key input to the ICG setting process is the Bank's Internal Capital Adequacy Assessment Process (ICAAP). In line with the regulatory requirements of PRA and the Parent Bank's regulator Reserve Bank of India (RBI), the Bank 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 of the Bank. The Bank submitted its latest ICAAP document to the Board in April 2015.

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 information on the Bank's risk management and governance is provided in subsequent sections and details are available in the Bank's Annual Report for the year ended March 31, 2015.

3. Capital resources

The capital ratio at 19.2% remained strong as at March 31, 2015 with a Tier 1 capital ratio of 14.6% which is above the regulatory requirements. The following tables summarise the capital position and details the capital resources of the Bank as at March 31, 2015.

3.1 Capital ratios

Particulars	Ratio
Core Tier 1	14.6%
Tier 1	14.6%
Total capital	**19.2%**

3.2 Available capital

Particulars as on March 31, 2015	Amount in USD million
Tier I Capital	538.8
Tier II Capital	168.2
Total available Capital	**707.0**

3.3 Composition of Tier 1 capital

Particulars	Amount in USD million
Permanent share capital	420.1
Retained earnings	128.1
Share premium account	0.0
Available for Sale security reserve[1]	(8.7)
Other adjustments[2]	(0.7)
Total Tier I capital	**538.8**

The Bank's regulatory capital excludes capital contribution of the employees in respect of share awards granted by the Parent Company [3].

[1] The capital impact is net of tax

[2] Other adjustments include deduction on account of Article 33 (Debit value adjustments) and Article 34 (Additional Value adjustments) of CRR

[3] Under the requirements of UITF Abstract 44, a subsidiary should recognise an expense in its profit and loss account to reflect the effective remuneration paid to employees in respect of share awards granted by the Parent Company. The corresponding entry is to equity as the amounts are considered to be capital contributions by the Parent Company.

3.4 Composition of Tier 2 capital

Particulars	Amount USD million
Subordinated notes and perpetual subordinated bonds	158.6
Collective impairment allowance	9.6
Total Tier II Capital	**168.2**

The value of the subordinated notes eligible as capital are determined in accordance with the CRD IV grandfathering arrangements as adopted by the PRA.

The details of the subordinated notes in issue before regulatory adjustments are below:

Issue	Nature of Issue	Interest Rate	Interest frequency	Maturity	USD million
12-Dec-06	Perpetual junior subordinated notes	6.38%	Semi-annually	Callable by issuer at par in 2016; no maturity	85
23-Nov-10	Unsecured subordinated fixed rate notes due 2020	7.00%	Semi annually	Bullet payment in November 2020	150

4. Minimum Capital Requirement: Pillar 1

Banking operations are categorized as either trading or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognized in the balance sheet.

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 following table summarises the Bank's Pillar 1 capital requirement for various risk types:

Capital requirement for	Amount USD million
Credit Risk[4]	281.8
Market Risk[5]	0.0
Operational Risk	13.0
Total Capital Resource requirement under Pillar 1	**294.8**

[4] This includes the impact of Credit Value Adjustment (CVA) to recognise the adjustment on account of change in fair value of Derivative assets that are due to changes in Counterparty's credit risk

[5] As per Article 355 of CRR, the institutions are required to calculate own funds requirement for Market Risk if the overall open position exceeds 2% of the total own funds. ICICI Bank UK Plc had a open position of USD 6.8 Mn USD which is less than 2% of the total own funds.

5. Credit Risk

5.1 Credit risk overview

Credit risk is the risk that unexpected losses may arise as a result of the Bank's borrowers or market counterparties failing to meet obligations under a contract. The Bank's largest regulatory capital requirements arise from credit risk in its lending operations.

The Bank has developed a risk appetite framework articulated within the broader context of the nature, scope, scale and complexity of the Bank's activities. The risk appetite framework and related limits are approved by the Board of Directors. In relation to credit risk, all credit risk related aspects are governed by the Credit Risk Management Policy (CRMP) of the Bank, which is approved and reviewed annually by the Bank's Board Credit Committee. The CRMP describes the principles which underpin and drive the Bank's approach to credit risk management. It lays down a structured credit approval process and covers the credit rating framework, collateral management, provisioning.

The Bank's Credit Risk team is also responsible for the following with respect to managing the Bank's credit risk- developing credit policies, establishing the delegation of sanctioning powers, limiting and monitoring concentrations of exposure and performing periodic credit stress tests on the Bank's portfolio. The delegation structure for approval of credit limits is approved by the Board. Credit proposals are approved by the Executive Credit and Risk Committee (ECRC) or the Board Credit Committee (BCC) based on, inter alia, the amount and internal risk rating of the facility. All credit proposals put up to the BCC are passed through the ECRC. The concentration risk in the Bank's portfolio is governed by the risk appetite framework which stipulates various limits to manage exposure concentrations within the Bank. The key parameters of risk concentrations measured in the Bank include sectoral, country, rating category based, product specific exposures, counterparty and large exposures.

Credit quality is monitored on an ongoing basis. The Bank has established a credit forum, which is comprised of Heads of Businesses and the Head of Risk. The credit forum focuses on management & monitoring of impaired and watch list assets/investments and also monitors developments in the Bank's portfolio through the Early Warning Indicators (EWI) framework to identify potential vulnerabilities. Credit risk is also managed at the portfolio level by monitoring and reporting risk dashboards to the BCC.

5.2 Minimum capital requirement

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

Standardised approach – asset classes	Pillar 1 Capital requirement as at March 31, 2015 USD million
Central government or central banks	0.0
Institutions	35.0
Corporate	180.2
Retail	23.1
Exposures in Default	20.6
Securitised investments	6.6

Standardised approach – asset classes	Pillar 1 Capital requirement as at March 31, 2015 USD million
Short term claims on institutions	8.7
Equity	0.6
Other items (including CVA adjustment)	6.9
Total	**281.8**

5.3 Analysis of credit risk exposures

The following tables detail the Bank's regulatory credit risk exposures as on 31 March 2015. All exposures are stated after specific impairment provisions and post application of credit risk mitigation (CRM) techniques with substitution effects on the exposure and before application of any conversion factors (CCF).

(i) Analysis of exposure by asset class

Asset class	Exposure as at March 31, 2015 USD million
Central government or central banks	534.1
Institutions	776.0
Corporate	3,171.5
Retail	289.1
Exposures in Default	189.1
Securitised investments	127.1
Claims on Institutions and Corporates with a short-term credit assessment	190.7
Equity	7.4
Other items	58.3
Total	**5,343.3**

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

Exposure to corporates located in	Exposure USD million
Europe and North America	2,315.9
India	219.6
Rest of the world	636.6
Total	**3,171.5**

Exposure to institutions located in	Exposure USD million
Europe and North America	122.2
India	624.4
Rest of the world	29.3
Total	**776.0**

Exposure to institutions and corporates with a short-term credit assessment located in	Exposure USD million
Europe and North America	80.1
India	103.1
Rest of the world	7.4
Total	**190.7**

Exposure in default by country of risk	Exposure USD million
Europe and North America	82.6
India	24.1
Rest of the world	82.5
Total	**189.1**

All exposures to central government and central banks are in Europe and North America.
All exposures to securitised investments are to issuers in Europe.

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

Exposure to central government or central banks with maturity of	Exposure value USD million
Over 5 years	-
5 years or less but over 1 year	5.0
1 year or less but over 3 months	55.0
3 months or less	474.2
Total	**534.1**

Exposure to corporates with maturity of	Exposure value USD million
Over 5 years	522.5
5 years or less but over 1 year	1,321.7
1 year or less but over 3 months	539.4
3 months or less	788.0
Total	**3,171.5**

Exposure to institutions with maturity of	Exposure USD million
Over 5 years	34.3
5 years or less but over 1 year	405.9
1 year or less but over 3 months	246.4
3 months or less	89.3
Total	**776.0**

Exposure to securitised investments with maturity of	Exposure value USD million
Over 5 years	127.1
Total	**127.1**

Exposure to Retail clients with maturity of	Exposure value USD million
5 years or less but over 1 year	289.0
3 months or less	0.0
Total	**289.0**

Exposures in default with maturity of	Exposure value USD million
Over 5 years	118.9
5 years or less but over 1 year	61.6
1 year or less but over 3 months	8.7
3 months or less	-
Total	**189.1**

The maturity of exposures is shown on a contractual basis and does not take into account any instalments receivable over the life of the exposure. Hence the actual maturity may be different.

5.4 Analysis of credit risk exposures as per CQS

The Bank uses external credit assessments provided by Moody's, Standard & Poor's and Fitch. These are all recognised by the PRA 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 mapping of the CQS to the ratings of eligible ECAIs is available at:

http://www.bankofengland.co.uk/publications/Documents/other/pra/policy/2013/ecaisstandardised.pdf
http://www.bankofengland.co.uk/pra/Documents/publications/ss/2013/ss913.pdf

The following tables detail the standardised credit risk exposures by credit quality steps (CQS) for significant asset classes. All exposures are stated after specific impairment provisions and post application of credit risk mitigation (CRM) techniques with substitution effects on the exposure and before application of any conversion factors (CCF).

CQS for corporate exposure	**Risk weight %**	**Exposure USD million**
1	20%	-
2	50%	397.2
3	100%	176.3
4	100%	348.3
5	150%	80.4
6	150%	-
Unrated	100%	2,169.3
Unrated – Past due	100%	51.4
Unrated – Past due	150%	137.7
Total		**3,360.7**

CQS for institutional exposure	**Risk weight**				
	20%	**50%**	**100%**	**150%**	**Total**
1	43.0	-	-	-	43.0
2	2.0	60.5	-	-	62.5
3	-	537.8	-	-	537.8
4	-	-	18.4	-	18.4
5	-	-	9.1	-	9.1
6	-	-	-	-	-
Unrated	3.4	8.0	93.8	-	105.2
Total	**48.4**	**598.0**	**129.6**	**0.0**	**776.0**

The above table includes institutional exposures with residual maturities of less than three months, greater than three months and exposures to unrated institutions.

CQS for institutional and corporate exposure with short term credit assessment	**Risk weight %**	**Exposure USD million**
1	20%	59.5
2	50%	26.9
3	100%	102.8
4	150%	1.3
5	150%	-
6	150%	-
Total		**190.7**

CQS for securitised investments	Risk weight %	Exposure USD million
1	20%	35.5
2	50%	31.9
3	100%	59.7
4	350%	-
5	1250%	-
6	1250%	-
Total		**127.1**

CQS for central government or central banks	Risk weight %	Exposure USD million
1	0%	534.1
Total		**534.1**

CQS for Retail[6] exposures	Risk weight %	Exposure USD million
Unrated	100%	289.1
Total		**289.1**

Fixed assets and other assets attract a risk weight of 100%. Deferred tax assets are risk weighted at 250%.

5.5 Exposures to equities in the non-trading book

The Bank has exposure to equities in the non-trading book as of 31 March, 2015.

CQS for Equity	Risk weight %	Exposure USD million
Corporate	100%	7.4
Institution	100%	0.1
Total		**7.5**

5.6 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 the exposure value for derivative transactions using the Mark to market method as specified in Article 274 of CRR guidelines. For calculation of exposure value, the Bank calculates the current replacement cost based on sum of market values of only those contracts where the market value is positive for the Bank.

The Bank currently does not take any position with trading intent, but certain transactions may be classified as trading based on the applicable accounting guidelines. The Bank’s trading book

[6] The exposures are secured by deposits held as collateral

(as per accounting classification) includes the foreign exchange (FX) & derivative transactions entered on behalf of the clients. These transactions are covered by the Bank on a back to back basis. In addition, trading book also includes the ineffective hedges based on their accounting treatment and certain FX swaps entered into by the Bank to cover its interest and FX risk.

As at 31 March 2015, the notional principal values of the derivative instruments along with the gross positive and gross negative fair value were:

USD million

Instrument	Non-Trading Notional Principal	Trading Notional Principal	Gross Positive Fair value	Gross Negative Fair value
Exchange rate contracts	545.8	1,559.1	29.0	87.8
Interest rate contracts	838.6	546.2	24.2	12.0

The following table details the counterparty credit risk exposure calculation:

	Exposure USD million
Gross positive fair value of contracts	53.2
Potential credit exposure	52.3
Counterparty credit risk exposures	**105.5**

The Bank also provides counterparty credit risk on its Securities Financing Transactions (SFT). The exposure on account of such SFTs was USD 64.3 million

5.7 Credit Value Adjustment (CVA)

The Bank has computed the Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) on the outstanding MTM of the derivative portfolio, which amounted to USD 87K (post tax USD 69K) and USD 130K (post tax USD 103K) respectively. The CVA and DVA have been computed based on ALCO approved internal guidelines as follows:

CVA/DVA= Exposure x Probability of Default (PD) x Loss Given Default (LGD)

The PD has been adjusted for residual life of the derivative and a LGD of 45% has been used for computation of CVA/DVA computation. In addition to this, the Bank calculates the capital requirement for CVA risk as per the CRR guidelines.

The Pillar 1 capital requirement for CVA as at March 31, 2015 was USD 2.3 million.

5.8 Additional Valuation Adjustment (AVA)

To ensure that the valuation of the Bank's fair valued assets and liabilities achieves an appropriate degree of certainty, AVA has been calculated on the sum of the absolute value of its total fair valued assets and liabilities except the position held in Global Market Group (GMG). The calculation of AVA is as per the final draft regulatory technical standards (RTS) on prudent valuation adjustment published by EBA on March 31, 2014

5.8 Credit risk and dilution risk

Loan impairment provisions

The Bank regularly reviews its loan portfolio to assess for impairment. Provisions are established to recognise incurred losses in the loan portfolio carried at amortised cost. In determining whether an impairment has occurred at the balance sheet date, the Bank assesses if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment rather the combined effect of several events may have caused the impairment.

In accordance with the guidelines of FRS 26, an impairment loss for financial assets measured at amortized cost is the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. The estimated future cash flows take into account only the credit losses that have been incurred at the time of the impairment loss calculation. In case the expected cash flows are not available, the breakup value of security/collateral for respective facilities under watch is calculated in accordance with the Bank’s collateral valuation policy. In line with accounting guidelines, the Bank recognises an impairment loss equal to the best estimate within the range of reasonably possibly outcomes, taking into account all relevant information available about conditions existing at the end of the reporting period.

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 impairment allowances, management considers factors such as historical loss trends, credit quality of the portfolio, portfolio size, concentrations, and economic factors. The aggregate amount of specific and collective provisions is intended to be sufficient to absorb estimated credit losses generated in the loan portfolio. The Bank has followed FRS 26 guidelines for defining its collective impairment policy wherein the provisioning is determined by the extent of the underlying credit risk in the portfolio of the Bank. This is also the direction provided by the Basel Accord. The exposures that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment. In line with market practice, the Bank has been using a representative set of Probability of Default (PD)/Loss Given Default (LGD) data to determine the extent of provisioning required to be made by the Bank in respect of its performing loan portfolio on a collective basis. The aggregate provisioning requirement is arrived at by multiplying the outstanding amounts under each portfolio type (internally rated and externally rated exposures) on the relevant date with the corresponding PD and LGD.

The following table shows movement in loan impairment allowances:

USD million

Particulars	Specific impairment allowance	Collective impairment allowance	Total
Opening Balance	52.7	8.5	61.2
Write-offs	(35.4)	0.0	(35.4)
Recovery	0.0	0.0	0.0
Charge to P&L Account	34.2	1.1	35.3
Closing balance	**51.4**	**9.6**	**61.0**

Further information on the past due and impaired assets is provided in the Annual Report for the year ended March 31, 2015.

Impairment of available for sale financial assets

The Bank regularly reviews its available for sale securities portfolio to assess for impairment. The Bank considers all available evidence, including observable market data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer, information about the issuer's liquidity, business and financial risk exposures, level of and trends in default for similar financial assets, national and local economic conditions. Once impairment has been identified, the amount of impairment is measured based on the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in profit or loss. A significant or prolonged decline in the fair value of an available for sale equity investment below its cost is evidence of impairment considered by the Bank.

The following table shows movement in impairment allowances for impaired AFS securities:

USD million

AFS securities	Specific impairment allowance
Opening Balance	34.6
Charge to P&L Account	13.5
Reversal on sale	-3.9
Closing balance	**44.2**

The Bank’s impaired AFS securities include equity investment only. Additional information on the Bank’s accounting policies, analysis of overdue and impaired exposures and valuation methodologies is provided in the Annual Report for the year ended March 31, 2015.

6. Market Risk

Market risk is the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices. The Bank's key policies for managing market risk as approved by the Board Risk Committee (BRC) are:

- Treasury policy manual and mandate (TPMM) which also includes the trading book policy statement (TBPS)
- Valuation Policy, Model Validation Policy and Independent Price Verification Policy

These policies are designed to ensure that transactions in securities, foreign exchange and derivatives are conducted in accordance with sound and acceptable business practices as well as regulatory guidelines and laws governing such transactions. The policies are reviewed periodically to take into account changed business requirements, the economic environment and revised policy guidelines.

The key market risks to which the Bank is exposed relate to:

- Interest rate risk – Interest rate risk is defined as the risk of loss which the Bank will incur as a result of an increase or decrease in interest rates. Interest income/expense from interest sensitive assets and liabilities are impacted by changes in interest rates. The overall value of the investment portfolio, the underlying value of the Bank's other assets, its liabilities, and off balance sheet (OBS) instruments are also impacted due to changes in interest rates because the present value of future cash flows changes when interest rates change.
- Forex risk – This risk arises due to positions in non-dollar denominated currencies, which in turn arise from assets and liabilities in those currencies. Foreign exchange risk is managed within the Treasury function in accordance with approved position limits. The Net overnight open position (NOOP) of the Bank at March 31, 2015 was USD 6.8 million. The Bank has not provided any capital on its net open exchange exposures because the open position was less than 2% of the total own funds of the Bank (Article 351 of the CRR)
- Equity Risk – Equity price risk arises due to the volatility of price movements on the Bank's investment in equity shares and convertibles. Threshold triggers are defined for falls in the values of equity investments and an escalation framework is in place. The value of the Bank's equity investments at March 31, 2015 was USD 7.4 million and the option value of convertibles was USD 5.4 million.

The Bank enters into various financial instruments as principal to manage balance sheet interest rate and foreign exchange rate risk. These mainly include interest rate swaps and exchange rate related contracts. The Bank uses derivatives to mitigate interest rate risk. Hedge accounting is applied to derivatives and hedged items when the criteria under FRS 26 have been met. For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. As detailed in section 5.6, the Bank currently does not take any position with trading intent, but certain transactions may be classified as trading based on the applicable accounting guidelines.

The Bank has devised various risk metrics for different products and investments. These risk metrics are measured and reported to senior management by the Bank's independent

Treasury Control & Services Group (TCSG). Some of the risk metrics adopted by the Bank for monitoring its risks are value-at-risk (VaR), duration of equity (DoE), price value of basis point (PV01) and stop loss amongst others. The risk appetite of the Bank includes limits for these risk metrics.

VaR is calculated using a parametric approach at a 99% confidence level over a one day holding period. The total VAR for the Bank's trading book portfolio as at March 31, 2015 was USD 0.11 million. The maximum, average and minimum VAR during the year for the trading book portfolio was USD 0.16 million, USD 0.08 million and USD 0.04 million respectively.

In order to manage its interest rate risk in its banking book, the Bank has sets out various measurement process including use of re-pricing gap reports and estimation of the sensitivity of the NII to a range of interest rate change scenarios including a scenario of 200 basis points parallel movement in the yield curve (defined as - Earnings at Risk (EaR). The impact of an increase in interest rates on the Bank's net interest income as at March 31, 2015, 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	1.64	3.28
USD	4.26	8.52
GBP	2.46	4.92
Others	(0.12)	(0.24)
Total	**8.24**	**16.48**

The Bank also uses Duration of Equity ("DoE") as an all-encompassing measure, which takes into consideration duration and value of both assets and liabilities. DoE is a measure of interest rate sensitivity, which indicates the change in the market value of equity due to 1.0 % change in interest rates. Currently, a limit of +/- 5.0 has been prescribed for DoE.

Further, in case of adverse movement of interest rate there may be some unrealised mark to market (MTM) impact on investment portfolio. The impact of an increase in interest rates on fixed income (fixed and floating rate) investments as at 31 March 2015, (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	0.05	0.10
USD	4.35	8.70
GBP	0.05	0.11
Others	0.00	0.00
Total	**4.45**	**8.90**

7. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. 'Compliance and legal' risk which is defined as the risk that arises from a failure or inability to comply with the laws, regulations or voluntary codes applicable to the financial services industry and 'conduct' risk, which includes risks arising from unfair treatment and delivering inappropriate outcomes to its customers, are also considered within the ambit of operational risk.

The management of operational risk within the Bank is governed by the Operational Risk Management Policy (ORMP) which is reviewed and approved by the Board Risk Committee (BRC) on an annual basis. The Bank has determined and articulated Operational Risk Appetite (ORA) which has been defined as the acceptable maximum level of Operational Risk (OR) that the Bank is willing to accept in pursuit of its business objectives and business plan, taking into account of its stakeholders as well as regulatory requirements. It has been expressed both in quantitative and qualitative terms. The Bank has expressed its ORA as a percentage of a financial parameter of the Bank i.e. operating income and operating expenses based on the average level of losses for the previous years and has also taken into account the existing controls and expected future developments/ initiatives. The Bank has implemented its RCSA approach to identify and ensure effective control of its operational risks.

Detailed guidelines on the Operational Risk Policy is covered in the Annual Report of the Bank for the year ended March 31, 2015

The Bank has adopted the Basic Indicator Approach for the purposes of calculating its operational risk capital charge as per Basel II. The Bank carries out an operational risk scenario analysis and stress testing exercise for assessing the adequacy of the operational risk capital charge. Various operational risk events based on existing and external loss data, risks identified in RCSAs and internal audit reports, have been assessed which are further used to create seven operational risk scenarios. Each of these scenarios is assessed for its probability and financial impact and compared with the operational risk capital charge. The detailed process is mentioned in "quantitative assessment of operational risk drivers" which is reviewed and the results shared with the ORMC and BRC on an annual basis.

The Bank has provided USD 13.0 million of capital towards the operational risk requirements.

8. Liquidity Risk

Liquidity risk arises due to insufficient available cash flows including the potential difficulty of resorting to the financial markets in order to meet payment obligations. The Bank differentiates liquidity risk between funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the Bank will not be able to efficiently meet cash flow requirements in a timely manner for its payment obligations including liability repayments, even under adverse conditions, and to fund all investment/lending opportunities, even under adverse conditions. Market liquidity refers to a Bank's ability to execute its transactions and to close out its positions at a fair market price. This may become difficult in certain market conditions either because of the underlying product itself or because of the Bank's own creditworthiness.

The Bank's liquidity risk management philosophy is to be able, even under adverse conditions, to meet all liability repayments on time and to fund all investment opportunities by raising sufficient funds either by increasing liabilities or by converting assets into cash expeditiously and at reasonable cost. The Bank maintains a diversified funding and the Bank also holds unencumbered, high quality liquid assets to protect against stress conditions. The Bank monitors and manages its overall liquidity risk appetite by ensuring that it maintains adequate liquid assets for projected stressed outflows under various scenarios and also ensures that its liquidity gap position is within the approved limit for the various time buckets. This framework is further augmented by defining risk limits for individual liquidity risk drivers. ALCO and BRC review these parameters on monthly and quarterly bases respectively.

The Bank has implemented the PRA's Individual Liquidity Adequacy Assessment (ILAA) framework. The ILAA summarises the level of liquidity required by the Bank to meet UK regulatory requirements and the liquidity commensurate with the risks identified in the Bank's portfolio and strategic plans. The ILAA sets out the framework used to ensure that the Bank maintains sufficient liquidity at all times, including periods of stress. The Bank also has a liquidity contingency plan (LCP) which details the overall approach and actions the Bank would undertake in order to manage the Bank's liquidity position during stressed conditions.

Further information is provided in the Annual Report for the year ended March 31, 2015.

9. Risk Management and Governance framework

The Bank's corporate governance framework is based on an effective independent Board, the separation of the Board's supervisory role from the executive management of the Bank and the constitution of Board Committees to oversee critical areas and functions of executive management. The Board is committed to maintaining high standards of corporate governance. The Bank remained focused on maintaining strong governance and controls structure. The Bank has a total number of seven Non-Executive Directors on the Board, three of whom are representatives of the Bank's Parent, ICICI Bank Limited, and four are independent. During the year, the Bank appointed Mr. Huw Morgan as independent Non Executive Director and Chair of the Board Risk and Board Conduct Risk Committee upon retirement of Mr. Richard Banks who was an independent Non Executive Director and Chair of the Board Risk Committee of the Bank until June 30, 2014.

The Bank operates a first, second and third line of defence model including independent control groups such as Compliance, Risk, Internal Audit, Finance and Legal to facilitate independent evaluation, monitoring and reporting of various risks. These support groups function independently of the business groups and are represented at the various Committees.

Effective corporate governance and compliance is a prerequisite to achieving the Bank's strategic objectives. The Bank has maintained its focus on controls, governance, compliance and risk management to provide a sound foundation for the business and it continues to ensure embedding of a controls and compliance culture throughout the organization. This is achieved through appropriate training, maintaining adequate resources within the control groups commensurate with the Bank's operations, continuous strengthening of internal systems and processes and effective deployment of technology. Information technology is used as a strategic tool for the Bank's business operations, to gain a competitive advantage and to improve its overall productivity and efficiency.

The Bank's conduct risk philosophy is to look to develop and maintain long term relationships with its customers, based on openness, trust and fairness. It expects that the behaviour and motivation of every employee must be about good conduct and adherence to established controls to deliver fair and appropriate outcomes to our customers. The conduct risk philosophy builds on the work undertaken by the Bank on its Treating Customers Fairly (TCF) commitments. The Bank evaluates the impact of the changing regulatory requirements on an ongoing basis and is fully committed to establishing controls to deliver fair and appropriate outcomes for its customers.

The Bank has continued to operate within its defined conduct risk appetite. Further, during the last financial year, the Bank enhanced the conduct risk governance and oversight arrangements, with the creation of a Board Conduct Risk Committee ("BCRC") and a Compliance, Conduct and Operational Risk management Committee ("CORMAC"). Both Committees meet on a monthly basis and receive regular updates from both business and Compliance.

The Bank has adopted the governance framework in line with the corporate governance practices adopted by other UK financial institutions. The Board is assisted by its sub-committees, the Audit Committee, the Board Governance and Ethics Committee (BGEC), the Board Risk Committee (BRC), and the Board Credit Committee (BCC), and follows ICICI Group's overall risk management framework. The Board has delegated responsibility for the day-to-day

management of the Bank to the Managing Director and Chief Executive Officer. In this role, the Managing Director and Chief Executive Officer is supported by the Management Committee, which he chairs. The Management Committee is supported by various other committees, which include the Executive Credit and Risk Committee (ECRC), the Asset Liability Management Committee (ALCO), the Operational Risk Management Committee (ORMC), Conduct Risk Forum and the Product and Process Approval Committee (PAC).

The Bank has a centralised Risk Management Group with a mandate to identify, assess and monitor all its principal risks in accordance with defined policies and procedures. The Risk Management Group is independent of the business units and the Head of Risk reports directly to the Managing Director and Chief Executive Officer, and also has reporting lines to the Risk Management Group of the Parent Bank and the Chairman of the Board Risk Committee.

The Bank has developed a risk appetite framework articulated within the broader context of the nature, scope, scale and complexity of the Bank's activities. The anchors on which the framework has been based include quantitative parameters such as capital, liquidity and earnings volatility as well as qualitative parameters such as conduct and reputational risk. The risk appetite statement has been further drilled down into portfolio-level limits, which include limits on country of risk and credit ratings of loans. The risk appetite framework and related limits are approved by the Board of Directors. The Risk Management Group of the Bank monitors adherence to the risk appetite framework and reports on it to the Board Risk Committee on a quarterly basis. The Bank's future business strategy takes cognizance of the risk appetite framework, so that the Bank will continue to operate within its risk appetite limits.

The Bank has developed a comprehensive risk management framework, covering all relevant risks in order to ensure that the key risks facing the Bank are clearly identified, understood, measured and monitored and that the policies and procedures established to address and control these risks are strictly adhered to. The outcomes of each of these risk management processes have been used to identify the material risks that the Bank is exposed to. The Bank is primarily exposed to credit risk, market risk (predominantly interest and exchange rate risk), liquidity risk and operational risk (including compliance, conduct and reputational risk). The Bank's largest regulatory capital requirements arise from credit risk in its lending operations.

Further information is provided in the Annual Report for the year ended March 31, 2015.